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## Southeast Asia Report

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30 May 1984

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AUSTRALIA

MEAT INDUSTRY LAUNCHES ACTION AGAINST U.S. GOVERNMENT

Canberra THE AUSTRALIAN in English 25 Apr 84 p 3

[Article by Nigel Austin]

[Text] The meat industry has begun court action against the United States Government claiming that 8,600 tonnes of beef worth \$18.5 million was unlawfully denied access last year.

The chairman of the Australian Meat and Livestock Corporation, Mr Geoff Jones, yesterday warned the same situation could arise again this year, and possibly in 1985.

The problem is the latest in a saga of declining international beef markets for the local meat industry.

The action questions an interpretation of the U.S. Meat Import Act of 1979 applying to the negotiation of voluntary restraint agreements under a separate U.S. law, the Agricultural Act of 1956.

Mr Jones said the problem would arise, whenever the Act's counter-cyclical formula set the trigger level below the guaranteed import floor, as happened in 1983 and 1984.

Officials had indicated that if import limitations became necessary again this year, any voluntary restraint arrangements reached could restrict beef imports up to 10,000 tonnes below the "floor."

The court action by the AMLC is supported by the large meat processing and exporting companies William Angliss and Co and Thomas Borthwick and Sons.

"We are asking the court to clarify the U.S. Government's responsibilities under the Act so that Australian processors and exporters can have greater access to the U.S. market and better plan their beef shipments," Mr Jones said.

Both companies claim that access to the United States was denied last year after import limitations were introduced in August.

The AMLC is seeking an injunction in the U.S. Court of International Trade to prevent the United States from negotiating voluntary restraint agreements which limit U.S. meat imports to less than 567,000 tonnes annually.

That figure is the minimum guaranteed by the 1979 Meat Import Act. Last year, however, U.S. trade negotiators insisted on limiting voluntary restraint arrangements to the so-called trigger level of the Act, a substantially lower figure.

Marginal

Meanwhile, Australia's declining share of international beef markets is expected to fall further when beef negotiations resume with Japan on May 10.

The federal minister for primary industry, Mr Kerin, yesterday held little hope of Australia receiving more than a marginal increase in exports.

Mr Kerin, just back from a trip to Japan and South Korea, said that although Japan had agreed to meaningful negotiations the chance of a significant increase in exports was slim.

Japan increased imports of high-quality U.S. beef by 6,900 tonnes for the next four years when negotiations ended early this month. Australia is expected to receive an increase of only about 1,100 tonnes.

Mr Kerin is hopeful that Australian exports will increase in future years as the Japanese market continues to grow.

Mr Kerin described the recent U.S.-Japan beef negotiations as discriminatory and against the whole concept of market liberalisation on a fair and equal basis.

The end of negotiations was a big relief for the Japanese, who had been under considerable pressure from the U.S. for an even larger share of the market.

Mr Kerin said Australia was being squeezed from both the top and bottom ends of the Japanese beef market by America. The United States was sending more grain-fed beef to Japan every year, while exports of lower-quality diaphragm beef were also increasing rapidly.

Mr Kerin was also pessimistic about beef exports to South Korea this year because of large domestic pork production. Exports to the important South Korean, Singaporean, Malaysian and EEC markets are also expected to decline considerably.

The serious downturn in exports has been followed by severe warnings from the AMLC about the threat of expanding European Economic Community production to crucial Pacific region markets.

The corporation said the loss of these markets would cause the collapse of the international beef market.

AUSTRALIA

JAKARTA CONCERN FOR FORTIFIED COCOS, CHRISTMAS ISLANDS SEEN

Melbourne THE AGE in English 25 Apr 84 p 1

[Article by Michael Richardson]

[Text]

SINGAPORE, 24 April. — Indonesia believes Australia will develop military facilities on the Cocos and Christmas Islands in the Indian Ocean and says it wants to be consulted about such plans.

Both island groups are much closer to Indonesia than to Australia and their inhabitants are mostly of Asian descent. Christmas Island, about 2600 kilometres north-west of Perth, is only 360 kilometres south of the main Indonesian island of Java and nearby Sumatra island which is rich in natural resources.

Recently an official commentary broadcast in English on Indonesia's State radio, RRI, said the Christmas and Cocos Islands could become "a formidable fortress at the entrance of the Sunda Strait and the South Java Sea". A transcript of the commentary was made available to 'The Age' yesterday.

It was broadcast on 10 April, four days after the Cocos islanders voted for integration with Australia, and less than a fortnight after the 'National Times' published excerpts from a secret Australian defence document which said the Cocos and Christmas Islands could be targets of attack if Indonesia turned hostile.

The RRI commentary noted that the Cocos Islands are nearer to Sumatra and Java than Australia and that the majority of the population is of Malay or Indonesian stock.

"They have a strategic importance in the Indian Ocean, with an airstrip used by the Australian Air Force," the commentary said. "The airstrip can also be used by



aircraft of the US air force patrolling the Indian Ocean. Eventually, a naval base can also be constructed there.

"In the event of a conflict between the superpowers over control of the Indian Ocean, the (Cocos) Islands are bound to play a decisive role. Together with the nearby Christmas Islands, they will become a formidable fortress at the entrance of the Sunda Straits and the South Java Sea."

The RRI commentary said Indonesia had declared often that it had "no ill will against Australia and no territorial ambition".

"On the contrary, and as has been proved by facts, Indonesia has the desire to co-operate closely with Australia in all possible fields for the benefit of both countries."

The commentary said Indonesia was "keenly interested . . . in maintaining peace and security in this area". "But one thing Australia has to remember is that as a member of ASEAN and the non-aligned movement, Indonesia is working for the realisation of a zone of peace, freedom and neutrality in South-East Asia, and for a nuclear-free zone on the Indian Ocean."

Referring to possible threats to Australia, the document published in the 'National Times', said that "in a campaign of harassment of Australia. . . (the) Christmas and the Cocos Islands could be favored targets".

The document said: "Both islands are much closer to the (Indonesian) archipelago than to Australia and, while they continue undefended, it could seem feasible to an Indonesian Government, even with such limited military capabilities as at present, suddenly to seize either or both islands, should it see value in such a dramatic and challenging gesture.

"Once taken, and were the Indonesians able to achieve a logistic build-up, the islands could be difficult to re-take and to attempt to do so could place important high-capability Australian military assets at risk in a situation that would favor Indonesia."

Dr Desmond Ball, a senior research fellow with the strategic and defence studies centre at the Australian National University in Canberra said in his book 'A Suitable Piece of Real Estate' that the Australian Government operated a sophisticated submarine monitoring system from Christmas Island.

The Defence Department has denied this, but Dr Ball said the sonar system could detect Soviet and other potentially hostile submarines going to and from the Indian Ocean via Indonesia's Deepwater Straits and might be linked to the communications station on Australia's North-West Cape that was used to keep in touch with US submarines.

PAGE 6: Soviets back our plan for Kampuchea, says Mechtar.

## AUSTRALIA

### HAWKE DEFENDS PRC STEEL SCHEME

Canberra THE AUSTRALIAN in English 24 Apr 84 pp 1, 2

[Article by Robert Bowden]

[Text ]

THE Prime Minister, Mr Hawke, last night hailed his Australia-China steel plan as an "outstanding success", indignantly dismissing suggestions the initiative was on the rocks.

But Mr Hawke also said the prospect of doubling Australia's steel production capacity, as envisaged in the plan, had always been only a long-term objective, and not something which could be achieved quickly.

At the same time as Mr Hawke issued a four-page statement last night, the general-manager of BHP's steel division, Mr Peter Laver, issued a statement effectively ruling out any immediate or major expansion of the company's steel operations.

The two statements appeared as a concerted attempt by Mr Hawke and BHP to restore public confidence in the steel initiative — which Mr Hawke referred to last night as the "Zhao-Hawke" plan — at a time when its viability has come under strong attack.

More doubt was cast on the plan last week when BHP's managing-director, Mr Brian Loton, appeared to dismiss any short-term expansion by BHP.

The failure of the plan at this early stage would be a severe blow to Mr Hawke's credibility, especially coming so soon after an apparent

breach of an undertaking given to Mr Hawke by the Japanese Prime Minister, Mr Nakasone, ostensibly safeguarding Australia's share of the Japanese beef market.

The Nakasone guarantee and the Zhao-Hawke steel plan came out of the trip Mr Hawke made to five Asian nations in January-February. The trip was hailed as a political and public relations victory for Mr Hawke.

Mr Hawke issued last night's statement apparently in the middle of a two-day fishing trip off Cairns, designed as his Easter holiday.

The nature of Mr Hawke's response and of Mr Laver's statement indicated both developments may have been planned before Mr Hawke went fishing.

Mr Hawke referred several times to "grotesque distortions" involved in reporting of progress in the steel plan over the past few days.

Mr Loton said it was "extremely unlikely" BHP would make the \$7000 million investment in new plant that would be necessary to export six million tonnes of steel a year to China.

Mr Laver's statement confirmed any major investment to supply the Chinese with steel was out of the question.

"The doubling of Australian steel capacity to provide semi-finished steel for China in the short term has never been a prospect," Mr Laver said.

Mr Hawke dismissed the "grotesque view" which he said had reached "exaggerated heights" — that the doubling of Australia's steel production to about 12 million tonnes could be achieved in the short term.

#### Caution

"Progress on the initiative so far lines up well against what was promised at the time," he said. "The mutual efforts of China and Australia can only be judged an outstanding success."

Mr Hawke's remarks reflect the more general problem he faces in persuading the private sector to invest.

Mr Laver's and Mr Loton's statements also reflect the extreme caution with which the private sector is approaching the project. BHP is simply not prepared to make the \$7000 million investment in new steel-making plant with little certainty about the security of Chinese contracts.

BHP is gearing its operations more towards energy after its acquisition of Utah International at a time when Mr Hawke is pushing for the expansion of the steel plant.

While apparently recognising some of the arguments by BHP, Mr Hawke listed instances of co-operation between the two countries on

developing a closer trade in steel.

These include a recent visit to Peking by a government study group, and a visit by a delegation of BHP officials to Chinese steel mills.

But perhaps more importantly, Mr Hawke cited talks between the chief executive of CRA, Sir Roderick Carnegie, and Chinese officials on "a range of concrete proposals for co-operation in iron and steel".

Mr Hawke first raised the prospect of CRA's involvement in the steel initiative during the Chinese trip.

CRA subsidiary, Hamersley, has been studying the idea of moving from iron ore mining into steel production, but plans for such a move are scheduled for the 1990s.

Mr Hawke said in briefings during his trip, he had referred both to the short-term prospects in the steel industry which could be met from existing capacity and to the very long-term prospects.

On the former, Mr Hawke said he mentioned the possibility of reopening BHP's moth-balled steel plant at Kwinana — an idea he said was canvassed with Mr Loton before talks with Mr Zhao.

In the longer term, Mr Hawke reiterated his statements that long lead times would be involved requiring new patterns of investment in Australia and China.

Mr Hawke restated what he described as his only quantitative reference to long-term prospects for processed iron sales in which he said: "I do not want to put figures on it at this stage except to say that if we only got a relatively small proportion of the growth in the Chinese industry, towards the end of this century it could represent something like a doubling of our capacity of industry in Australia."

While BHP has sought to play down the prospects of major long-term investment, it notes a number of areas of interest with China including:

**THE** possibility of re-opening the Kwinana blast furnace "on some mutually agreed basis" to supply pig iron to China.

**AUSTRALIAN** investment in steel coking facilities in China.

**CHINESE** investment in an iron ore mining venture in Australia.

Increases in the volume of trade in steel products at competitive world prices.

Mr Laver said later that while the re-opening of the Kwinana plant was a possibility, it was in fact no more certain than when the idea was initially canvassed during Mr Hawke's trip.

If such a plan were carried through, Mr Laver said it would involve an investment of more than \$10 million and would involve the creation of 300-400 jobs.

Mr Hawke said the work of the government study group sent to China to further the steel initiative would take a considerable time.

"I am completely satisfied with the progress that is being made," he said.

"Nothing that we have learned in discussions over the past couple of months diminishes our view that there are immense potential advantages to both countries from co-operation in the iron and steel industries."

## AUSTRALIA

### OECD STUDY REJECTS SUBSIDIZED POWER FOR LOCAL SMELTERS

Melbourne THE AGE in English 24 Apr 84 p 3

[Article by Michael Gill]

[Text]

**T**here is no justification for subsidised power prices to new aluminium smelters in Australia, a major world study by the Organisation for Economic Co-operation and Development says.

Australia has basic advantages as an aluminium producer, but Federal and State Governments are having trouble in talks with aluminium companies because of subsidised power offered in some other countries, the report says.

The OECD report, published in Paris last year, recently became available in Australia. The report is relevant to the State Government's talks with prospective partners, mainly Alcoa over power prices for the Portland project.

The OECD report supports a recent World Bank study, which highlighted Australia's advantages for aluminium smelting. With relatively low energy costs and stable politics, Australia is a natural location for new plant in an industry undermined by steep rises in energy costs worldwide.

The Victorian economic strategy released recently by the State Government said that Victoria's power system had the capacity to provide for more industries like smelting in the next five years. It is believed that the New South Wales system is also facing a substantial surplus in the next few years.

Australia is a member of the OECD and views of policy contained in the organisation's reports usually reflect Federal Government views.

In Australia, the OECD found, there had been "extensive debate" between Commonwealth and State Governments and alu-

minium companies about the price of coal burned for power and the true cost of building new power stations to supply smelters.

"The present world market situation and depressed demand outlook have complicated the task of convincing the aluminium companies that the advantages of locating in Australia offset subsidised power offered in some competing locations," the report says.

It is believed that the Federal Treasury has been concerned that the surplus power capacity in NSW and Victoria might lead to another round of interstate bidding of power discounts such as occurred during the resources boom. The OECD said that subsidies in power prices did not affect only domestic consumers, but undermined energy patterns worldwide.

NSW power prices for smelters are secret. According to company sources, this is because the prices are less than the bulk supply rate charged to local authorities which distribute power to NSW consumers. In Queensland, the rate charged to Comalco at Gladstone is also secret. Documents held in the Victorian Treasury indicate that the price is well below the cost of supply.

In Victoria, the State Government has had long negotiations with Alcoa over a price and other conditions for power for the Portland project. Reports have suggested that the Government has costed power at about 2.5 cents a kilowatt hour. Alcoa is said to want something less than 2 cents.

The difference, based on the first stage of the project, would be about \$11 million a year. The Government has said that there will be no subsidy in the price. It has said also that the details will be made public.

Figures cited by the OECD and the World Bank indicate that a 2.5 cents a kilowatt hour price is comparable to, or lower than, such prices elsewhere. The OECD noted that many power contracts were secret, yet "there are few grounds on which confidentiality surrounding the terms of power contracts can be justified".

The OECD report says there are grounds for low power prices to smelters, but "the real issue is whether power prices to smelters cover the full costs of production, distribution and delivery of electricity and provide power companies with an appropriate return on capital invested".

In Victoria's case, the output cost at Loy Yang is estimated in 1982 terms at 2.5 cents a kilowatt hour. To supply Portland, the SEC has undertaken a \$300 million program which has linked the town with high voltage supply.

The OECD report says that adjustment of the industry in line with changed conditions has been left to market forces and governments, where they act, generally provide artificial props to industry undermined by high energy costs. Only Japan among the OECD countries has comprehensive policies to supplement market forces.

AUSTRALIA

LEFT-WING, JEWISH GROUPS TARGETS OF PHYSICAL, VERBAL TERRORISM

Canberra THE AUSTRALIAN in English 24 Apr 84 p 9

[Article by David Hirst: "When Racism Turns to Terror"]

[Text] From the beginning of this year left-wing shops, groups and individuals--particularly in Sydney--have come under physical and verbal attack on a scale not seen in Australia since the cold war.

Almost every left-wing anti-racist, anti-uranium organisation in Sydney has suffered and, although most of the attacks have been reported to the police, no one has been able to identify the culprits.

In one such incident, some weeks ago, the office of the International Socialist--a Trotskyite political party centres in Sydney--was fire-bombed.

After the bombing, the group received a message on their record-a-phone in a voice which members of the group recognized from previous threats. It said: "Since you got our message it seems that our firebomb didn't work. Don't worry we'll try again and next time maybe we'll inflict some casualties."

The incident would normally have remained unreported: little damage was done and the organisation which was attacked is insignificant in Australian politics.

Last month the Labor Council of NSW unanimously passed a motion against racism and specific racist groups.

The motion expressed concern over the significant increase in attacks on left-wing organisations and individuals.

Earlier this month, 13 representatives of some of the State's most powerful unions established the Trade Union Committee Against Racism.

The left, with an increasing sense of urgency, is arranging for more meetings and will be approaching unions for further support against the attacks.

Concern is not confined to the left. A spokesman for the Jewish Board of Deputies told THE AUSTRALIAN the board was "very concerned" about the activities

of racist groups and about the "possibility" that they were connected with one of the biggest of Europe's extremist groups, the Party of New Forces (PFN).

#### Research

The PFN has a history of criminal and terrorist acts dating back to 1975 and including involvement in the bank robberies to finance international fascist terror, and the machine-gunning of the offices of the French Ministry of Transport in February 1982 to protest against communist membership of the French Government.

Two members of the PFN are in jail for terrorist attacks.

The French organisations referred to are closely connected with both Spanish and Italian neo-fascists and it is likely that neo-fascist groups in the three countries harbor members on the run after terrorist activities.

Denis Freney, a senior member of the Communist Party of Australia, has done extensive research on right-wing groups.

"It is probable that they have contacted neo-Nazi groups in Europe," Mr Freney said.

He said that his sources, which have accurately predicted attacks on left-wing establishments, claim that money has been received by some groups from an embassy in Australia and that some members of the group mix with two "extremely dangerous" commando-trained South Africans.

These people, according to Freney, are connected with the far right Afrikaan group, the HNP, a party believed to be connected with the "White Commandos," an openly Nazi terrorist group in South Africa.

"The biggest concern of the left is that this group, linked with international neo-Nazis, is trying to exploit the racial issue in the current political environment," Mr Freney said.

"The danger is that Australia could be drawn into the centre of international neo-fascist terrorism which is very big in Europe."

"Previously, all the other far right groups have been ignored overseas but Australia is well positioned to hide terrorists on the run in Europe."

But the chairman of one racist group, National Action, Mr Jim Saleam, said that National Action had no formal ties with the French PFN but had extended an invitation to one of its student representatives to visit Australia.

He said National Action was a "radical group at variance with established liberal groups--we do not want to expose our membership to human rights organisations or political police but wish to keep it private."

Mr Saleam said the organisation was more or less the same as the New Zealand Nationalist Workers Party with which they were in close contact.

#### Security

He described National Action as a nationalist organisation which believed in the reintroduction of the White Australia policy and the nationalisation of multinational corporations.

"The right sees us as a left-wing organisation," he said. According to a National Action bulletin, the group is preparing for the Race Discrimination Act which they believe will be passed soon.

The bulletin states that if penal provisions are introduced in the Act:

"Our party will improve its overall security so as to preserve its organisational strength.

"Our party will develop new methods of work to continue its organisational expansion.

"Our party will disregard any such intimidatory law.

"Leading members of Australian National Action have made it very clear that they are prepared to accept prison terms rather than pay fines or accept any other form of 'legal' penalty," the bulletin states.

National Action claims to be a purely racist, nationalist group concerned to protect Australians from unemployment from the "Asian Invasion."

Another representative of National Action, Mrs Lina Reyes, when denying a report published in the left-wing newspaper TRIBUNE, which claimed that National Action had firearms at its headquarters, said the only contact the group had with the police was after they contacted Special Branch in conjunction with death threats they had received.

She claimed these threats came from left-wing organisations who "obviously dislike us intensely."

"We disclaim all knowledge of any such activities," she said in reference to the bomb attacks and threats.

Miss Reyes agreed National Action representatives kept in touch with right-wing groups around the world, corresponding with them on a regular basis.

She blamed the attacks on the left as coming from the "more lunatic right-wing groups" and said she believed the police took a lot of the claims of the left "with a grain of salt."

Miss Reyes refused to release details of the membership of National Action but said the figure was greater than a suggested 160 and that the group was receiving inquiries on a daily basis from all sorts of people including "ex-army types, students, housewives, and teenagers..."

AUSTRALIA

RAAF TO MAINTAIN MALAYSIAN PRESENCE BEYOND 1988

F-18 Squadron Rotations

Melbourne THE AGE in English 25 Apr 84 p 5

[Text] Kuala Lumpur, 24 Apr--Australia will maintain a fighter aircraft presence in Malaysia after it withdraws its remaining squadron of 18 Mirages from the northern Butterworth air base by 1988, the Defense Minister, Gordon Scholes, said today.

This would be done by rotating new Royal Australian Air Force F-18 Hornet fighters through Butterworth base for a minimum of 16 weeks a year from mid-1988.

"The capacity and range of the F-18s will make it unnecessary to maintain a squadron on a full-time basis at Butterworth," he said.

The first of 75 U.S.-built Hornets ordered by Australia will arrive next April.

Mr Scholes, who arrived on Sunday, met Malaysian Prime Minister and Minister of Defence Datuk Seri Mahathir Mohamad yesterday to discuss the future of Australia's 25-year fighter presence in the country.

Mr Mahathir was satisfied with the arrangements for continued RAAF presence at Butterworth after 1988 and recognised changes occurring in Australia-Malaysia defence relations, Mr Scholes said.

He said the RAAF's two P3 Orion long-range maritime reconnaissance aircraft now stationed in Butterworth and used for maritime surveillance in the Malacca Straits and South China Sea would remain there for deployment.

An Australian army company of 150 men would also remain at Butterworth and continue exercises with Malaysian defence forces. There were now about 800 RAAF personnel stationed at Butterworth base.

Mr Scholes stressed that Australia would remain an active participant in the integrated air defence system through which Malaysia and Singapore coordinated their air defence capabilities and exercises.

Supplementary fighters and F-111 strike aircraft would also be deployed to Butterworth from Australia for combined air exercises, he said.

Mr Scholes said fair compensation for about 1,000 Malaysian civilian workers, who would lose their jobs when the RAAF pulled out in 1988, would be worked out by the relevant authorities.

Need to Offset USSR

Melbourne THE AGE in English 26 Apr 84 p 7

[Article by Michael Richardson]

[Text] Singapore, 25 Apr--A Soviet military buildup in South East Asia has made Australia's military presence in the region more important, the Defence Minister, Mr Scholes, said today.

He said the Labor Government--which came to power just over a year ago questioning the need for Australian forces to be stationed in the area--had given assurances that RAAF fighters would operate from Malaysia and Singapore "for the foreseeable future."

Mr Scholes linked Labor's change in attitude to a substantial Soviet military build-up in the region using facilities in Vietnam, including the Cam Ranh Bay air and naval base.

He said the Russian build-up injected uncertainty and tension into South East Asia.

It made the 1971 Five Power Defence Arrangements (FPDA) more important than they would have been had Soviet military activities decreased and a peaceful solution been found to the Kampuchea conflict.

He declined to say whether an Integrated Air Defence System (IADS), in which Australia plays an important role, had detected any intrusions into Malaysian and Singaporean air space by Soviet aircraft operating from Vietnam, although Malaysia complained recently of such a violation.

Mr Scholes will begin a three day visit to Butterworth tomorrow.

He held talks on Monday and Tuesday in Kuala Lumpur with Malaysia's Prime Minister, Mr Mahathir, who is also Defence Minister.

CSO: 4200/762

CANBERRA EDITORIAL ON 'CHINKS' IN DEFENSE ARMOR

Canberra THE AUSTRALIAN in English 25 Apr 84 p 6

[Editorial: "The Worrying Chink in Australia's Armor"]

[Text] THE Hawke Government has so far been noted for its pragmatic approach to many national problems and this in part accounts for the remarkable general approval of the Prime Minister.

Nonetheless, there are some areas where the Government appears to have serious blind spots. On Anzac Day, it is pertinent to note that one of these is the chinks in the armor of our defence preparedness which are clear to most and constitute an area of growing public concern.

But our defence deficiencies cannot be laid at the feet of the present Government alone, for most of its predecessors have, except for short periods during times of high international stress, generally deferred making essential equipment decisions, let alone embarking on any significant expansion of our defence capability needed to match the grandeur of their words. The result has been a pile-up of most costly requirements to a level when, without a huge increase in defence spending, serious deficiencies had to occur.

Successive national pay rises, currency movements affecting our overseas purchases, rapidly increasing costs, and so on, have had to be accommodated by and large within the defence vote. This has resulted in continuous cuts being applied within the navy, army, and air force.

Unless ships, army formations or air squadrons were to be laid up or disbanded and trained personnel retrenched, the cuts had to be applied to the only areas where savings could be made quickly - exercises, steaming time, flying hours, fuel and transport costs, stores and supplies. The result has been a steady erosion of the capability of the Australian Defence Force to remain operationally highly effective.

The state now, despite somewhat bizarre reassurances on the ordering of army boots, is not far short of alarming.

Shorn of its Fleet Air Arm, heavily restricted in its steaming time and with the RAAF unable to supply its full needs for aircraft for training purposes, let alone for operations, the navy's capability is at its lowest level for decades. Indeed, it has no aircraft on its ships for the first significant period since 1928 and is largely blind beyond the range of the horizon.

The army is suffering from great shortages and obsolete equipment in many areas, including artillery, engineering, air defence, and command and control and practical surveillance equipment. It lacks the ability to sustain in the field more than a single battalion with supporting arms, and that for only a limited period of time.

The air force, though it has an extensive replacement program, including the FA-18 fighters, is similarly heavily restricted in flying hours and exercising and it has clear deficiencies in a number of fields, including airborne early-warning and air defence radar control systems. It cannot retain enough air crew needed for its maritime and other types of aircraft.

What should be done? Clearly, if we are really serious about our claims of independence in foreign policy and are to be capable of our own defence, more resources must be allocated. Can a nation which spends broadly as much on social services as on education, health and defence combined, really claim to have reasonable balance in its budget allocations? But that is not all.

There are many areas requiring urgent examination in the distribution of resources in defence itself. Foremost is perhaps the need for a great increase in the teeth-to-tail ratio. There are now about 18,000 servicemen and civilians in the Department of Defence and regional and service headquarters controlling administration and command, but only about 32,000 in the operational forces, including their logistic support.

A reduction of such huge staffs by even a third would throw up perhaps \$300 million a year for capital equipment for teeth arms. It would improve morale while ensuring our service personnel become proficient in the field and not just with the pen.

The Government would do well to move to restore our defence capability. We are an aligned nation, as Mr Hawke often states. The increasing strength of the Soviet fleet in the Pacific must have long-term implications for Australia.

Sniping at the main bulwark of our ultimate defence - the ANZUS Treaty - is hardly believable against a background of our own de facto disarmament.

Rhetoric must be replaced with action. That most ancient of sayings, "When a strong man armed keepeth his palace, his goods are in peace" remains as true today as it did thousands of years ago.

NATIONAL ECONOMY; GLOBAL RECESSION, LOWER OIL PRICE PROBLEMS

Jakarta THE INDONESIAN QUARTERLY in English Vol XII No 1, Jan 84 pp 16-31

[Article by Anwar Nasution: "The Indonesian Economy: Problems of Adjustment to Global Recession and Lower Oil Prices"]

[Text] SUMMARY

Recent developments have once again shown the vulnerability of the Indonesian economy to both international and domestic shocks. The world oil glut and recession in the industrialized countries led to OPEC's decision in March 1983, to cut the price of crude oil by US\$5 per barrel and to impose quotas on oil production. Since the first oil shock in 1973, about two-thirds of the Indonesian government's domestic revenue and eighty per cent of the country's export value have been derived from oil. As a result, the reduction in oil export earnings have not only deteriorated Indonesia's balance of payments position but also reduced government revenue, domestic savings, and the total investment outlays of the country. At the same time, the agricultural sector has been hard hit by severe drought during much of 1982. The effect of the long drought has been particularly severe in the food sector where output dropped in 1982, except in the production of rice.

The effect of the shocks on economic growth has been dramatic. Indonesia's real GNP expanded by only 2.3 per cent in 1982 compared with 7.8 per cent during the previous decade (Table 1). This means that for the first time, during the period of the present government, per capita income of Indonesia remained stagnant in 1982.

Confronted with such difficulties, the government has taken prompt and drastic short-term economic macro stabilization policies. An austerity budget

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Paper presented at the *Eleventh Japan-Indonesia Conference*, held in Sanur, Bali, on January 23-25, 1984, organized by CSIS. Dr. Anwar Nasution is Lecturer in Monetary Economics at the Faculty of Economics, University of Indonesia.

Table 1

## AVERAGE GROWTH RATES AND SELECTED ECONOMIC INDICATORS, 1960-1980

	1960-1970 (% p.a.)	1970-1975 (% p.a.)	1975-1980 (% p.a.)
Agriculture	2.7	4.4	4.1
Industry	5.2	13.4	9.7
Mining	—	—	4.6
Manufacturing	—	—	13.1
Electricity, gas, water	—	—	13.7
Construction	—	—	11.5
Services	4.8	9.7	9.0
GDP	3.9	8.4	7.5
Private consumption	4.1	8.9	7.9
Government consumption	0.9	11.0	14.8
Total consumption	—	—	8.9
GDI	4.6	18.3	11.7
Exports	3.6	11.3	5.9
Imports	3.2	25.0	14.6
GDY	—	—	11.5
Factor payments	—	—	17.2
GNP	3.9	7.6	6.9
GNY	—	—	11.2
GDS	—	—	15.0
GNS	—	—	14.4

## Economic Indicators

	Constant Prices			Current Prices
	1960-1970	1970-1975	1975-1980 <sup>a</sup>	1975-1980 <sup>a</sup>
ICOR <sup>b</sup>	2.2	2.2	3.1	
GDI/GDP	—	—	24.1%	21.2%
Average domestic savings rate	6.3	19.4	24.0%	25.1%
Marginal domestic savings rate	—	—	29.0%	34.4%
Average national savings rate	—	—	21.4%	22.1%
Marginal national savings rate	—	—	23.3%	30.0%
Imports/GDP	—	—	29.0%	21.8%
Exports/GDP	—	—	17.7%	27.0%
Resource balance/GDP	—	—	6.1% <sup>c</sup>	5.2%
Import elasticity	0.8	3.0	1.95	1.01

<sup>a</sup> Average values are based on the five years 1976 to 1980, and marginal values on changes between 1975 and 1980.

<sup>b</sup> GDI 1975-1979 : GDP 1975-1980.

<sup>c</sup> (Exports [Imports capacity] - Imports) : GDP.

Source: Based on BPS data.

was introduced in January 1983. To make up for the decline in export earnings, the government increased its foreign borrowing. On March 30, the rupiah was devalued by 28 per cent. At the same time, monetary policy was tightened to reduce domestic aggregate demand and to reverse pre-devaluation capital outflow. On June 1, the government abolished ceiling cum selective credit policies at state owned banks, at least for non priority sectors. The state-owned banks are now free to set their deposit and loan rates for non-priority sectors. In May, the government announced that 48 capital intensive public sector projects jointly worth more than US\$20 billion, were to be shelved or rephased or made available to other sources of financing. In addition, the government has also expressed its intention to invite larger participation of the private sector in economic activities as well as taking further steps to liberalize, deregulate and decontrol the economy.

The organization of this paper is as follows. An analysis of the Indonesian balance of payments is presented in section 1. The second section is a review of recent government budget and fiscal policies. The third section is an analysis of monetary policy, followed by a review of food production in the fourth section. Lastly, the fifth section is a projection of the future of the Indonesian economy.

#### BALANCE OF PAYMENTS

Indonesia's balance of payments reached its peak in 1980 after the second oil shock in 1979 (Table 2). The oil glut and world-wide economic recession started to affect Indonesia's economy in 1982. Her net export value dropped by 38 per cent in that year and non-oil exports by 30 per cent. On the other hand, non-oil imports continued to rise, though less rapidly than in the preceding years. As a result, a current account surplus of US\$2 billion in 1980/1981 turned into a deficit of US\$3 billion in 1981/1982 and US\$6.7 billion in 1982/1983. A deficit of US\$6.5 billion is expected in this 1983/1984 fiscal year as a result of March 1983 oil price cut and production quota.

To ride out the difficulties, in 1982/1983 the authorities drew heavily on the foreign exchange reserves that Indonesia had accumulated primarily during 1979 and 1980. Table 2 shows that the total foreign assets of the banking system fell from US\$11.3 billion in March 1982 to US\$9.1 billion at the end of the same year, and further declined to US\$8.8 billion at the end of February 1983. Large reductions in net foreign assets of the banking system during the last quarter of 1982 and the first quarter of 1983 were partly because of large capital outflows due to speculative pressures preceding the latest devaluation. The March 30th, 1983 devaluation, the second measure to

minimize the current account deficit, reversed the capital flow and rebuilt the foreign exchange assets of the banking system.

Table 2

BALANCE OF PAYMENTS, 1974/1975, 1979/1980 - 1983/1984  
(US\$ million)

	1974/75	1979/80	1980/81	1981/82	1982/83	1983/84
					est	proj
Export	6,581	18,510	22,885	22,994	19,385	17,483
Oil & LNG (gross)	4,548	12,340	17,297	18,824	15,630	13,182
Non-oil	2,033	6,171	5,587	4,170	3,754	4,301
Imports	-6,514	-13,205	-17,589	-22,635	-22,681	-20,502
Oil sector	-1,910	-2,940	-4,050	-5,407	-5,468	-4,551
Non-oil imports	-4,341	-9,028	-11,837	-14,561	-14,803	13,986
Non-factor services (net)	-263	-1,237	-1,702	-2,667	-2,411	-1,965
Factor Services	-205	-3,106	-3,165	-3,149	-3,466	-3,481
Public debt interest	-80	-635	-724	-820	-998	-1,271
Others	-125	-2,471	-2,441	-2,329	-2,468	-2,210
Balance on Current A/C	-138	2,198	2,131	-2,790	-6,762	-6,501
Capital Inflow						
Public m & It loans						
Disbursements	(1,120)	(1,939)	(2,864)	(3,203)	(4,981)	(5,600)
Amortisation	(-212)	(-1,335)	(-987)	(-1,001)	(-1,376)	(-1,699)
Net disbursements	908	604	1,877	2,202	3,605	3,901
Grants	75	52	76	67	100	100
Direct investment	538	217	140	139	276	350
Other (net)	-1,392	-1,381	-1,488	-606	-499	2,420
Change in Reserves	9	-1,690	2,736	988	3,280	-270
Memo Items						
Net official reserves	920	4,606	7,342	6,354	3,074	3,344
Net foreign asset of banking system		6,906	10,787	11,154	6,674	6,144

Source: World Bank.

The government's decision to shelve, rephase and review its large projects was the third measure to narrow the foreign exchange gap. Rephasing of four major public sector projects alone saved more than US\$3 billion of budgeted foreign exchange expenditures in the 1983/1984 fiscal year. The repurposed projects are: the US\$1.35 billion Musi oil refinery in Sumatra, the US\$0.6

billion Bintan aluminium project, the US\$1.5 billion Pertamina arimatic plant in Plaju, and the US\$1.6 billion olefin complex in Aceh. Projects that are now under review are, among others: the US\$4.2 billion integrated sea communication program, the US\$1.9 billion mass transit railway system for Jakarta, and the Biliton coal projects.

The fourth step is to bolster the level of international borrowings. In January, 1983 the IMF announced that it had agreed to lend Indonesian SDR 69 million from the Indonesian contribution to IMF commodity buffer stock. In March, Indonesia obtained a US\$1 billion commercial loan through Morgan Guaranty Trust, another Yen 24 billion syndicated loan, and a DFL100 million bond issued in the Netherlands. From the IGGI, Indonesia obtained a new commitment of US\$2.2 billion in aid and loan for the 1983/1984 fiscal year.

According to a report by Morgan Guaranty Trust, Indonesia is now the seventh largest borrower in the world. By the end of 1982, the gross external

Table 3

**NET FOREIGN ASSETS OF THE BANKING SYSTEM AND  
FOREIGN EXCHANGE RESERVE, 1977-1983**  
(Rp billion)

Period	Bank Indonesia	Commercial Bank	Total	Exchange Rate (US\$1 = Rp)	Total Foreign Assets (US\$ billion)	Net Foreign Exchange Reserve (US\$ billion)
1977	1,052	316	1,368	421	3.2	2.4
1978	1,655	685	2,340	633	3.7	2.6
1979	2,636	1,315	3,951	632	6.3	4.1
1980	4,360	2,740	7,100	634	11.2	6.5
1981	3,221	3,233	6,454	632	10.2	6.1
1982:						
March	4,201	3,217	7,418	655	11.3	6.3
June	3,338	3,381	6,719	660	10.2	4.6
September	3,284	3,124	6,408	673	9.5	4.2
December	3,730	2,591	6,321	692	9.1	4.1
1983:						
January	3,891	2,738	6,629	699	9.5	4.0
February	3,400	2,818	6,218	704	8.8	3.6
March	3,005	4,326	7,331	707	10.4	3.1
April	4,376	4,363	8,702	976	8.9	3.4

Sources: 1. Bank Indonesia, *Indonesian Financial Statistics*, various issues.  
2. Biro Pusat Statistik, *Monthly Statistical Bulletin*, August 1983.

debt of Indonesia was US\$24.4 billion. The report predicted that the total debt service ratio of Indonesia in 1982 year would be 28 per cent of total exports. If the roll-over of short-term debts are excluded, then the ratio becomes 14 per cent. Nevertheless, those ratios are much lower than those of the Latin American countries such as Argentina, Brazil, Chile, Mexico, Ecuador and Venezuela whose total debt service ratios already exceed their respective annual export values. Those Indonesian figures are also below the debt service ratios of the Philippines, Thailand and Korea.

The past few years have witnessed a gradual shift in Indonesia's sources of foreign borrowing. In the past, most of the foreign borrowing came from Official Development Assistance (ODA), but since the *Pertamina* financial crisis in 1974/1975, the shares of commercial credits, syndicated loans and proceeds of bond floating in international markets have been increasing (Table 4). The terms of credit from ODA are much softer than of those from other sources. The reason for this shift, apart from being a member of OPEC, is because Indonesia is no longer considered a poor country. With income per capita at US\$530 (1981) Indonesia now belongs to the middle income group, according to the World Bank's classification.

Table 4

INDONESIA'S FOREIGN BORROWING: NEW COMMITMENTS 1975-1982  
(US\$ million, current prices)

	1978	1979	1980	1981	1982	Average Terms 1981
					(est)	Interest (%) Maturity (Years)
<i>Official development assistance</i>	<i>1,523</i>	<i>2,227</i>	<i>2,074</i>	<i>1,657</i>	<i>1,810</i>	
Bilateral Concessional	773	1,150	1,055	482	760	2.5 28.7
Multilateral	750	1,077	1,019	1,175	1,050	10.0 21.0
<i>Import related on "commercial" terms</i>	<i>373</i>	<i>1,133</i>	<i>1,011</i>	<i>2,778</i>	<i>2,140</i>	
Official	27	87	440	673	270	8.1 14.7
Buyers credits	305	817	449	883	940	7.4 11.7
Suppliers credits	41	229	122	1,222	930	6.9 9.6
<i>Untied borrowings</i>	<i>1,393</i>	<i>836</i>	<i>1,097</i>	<i>744</i>	<i>1,000</i>	
Financial institution <sup>a</sup>	1,295	773	1,052	704	1,000	15.5 <sup>b</sup> 10.0
Bonds	98	63	45	45	—	8.6 10.0
<i>Total</i>	<i>3,288</i>	<i>4,197</i>	<i>4,182</i>	<i>5,184</i>	<i>4,950</i>	<i>8.6 15.0</i>

At variable rates.

*Memo:* LIBOR (The London Inter Bank Offer Rate) averaged 16.5 per cent in 1981.

*Source:* World Bank Debtor Reporting System.

To improve the balance of payments position, and to reduce debt service ratios, the government intends to promote non-oil exports. Nevertheless, the measures the government has taken to pursue this objective are somewhat contradictory. The provision of concessional export credits, the establishment of export insurance, and devaluation are all beneficial to exporters. On the other hand, imposing quotas on exports of copra and palm oil has turned Indonesia into an unreliable source of those products. The export counter-purchase requirement on certain public sector contracts disturbs traditional marketing channel of Indonesia's own export commodities in international markets. This measure, along with the reservation of the exclusive rights to Indonesian shipping companies for shipment of government imports, has increased the cost of imports.

Port facilities need to be improved and customs procedures need to be simplified to step up non-oil exports. The industries themselves need structural adjustments in order to increase production and reduce costs. For example, capital utilization in plywood industry is now only around 50 per cent using two shifts of operation. Reducing excess capacity is not an easy task. Infrastructure has to be established. Ocean going shipping lines and international markets for plywood are in the hands of few foreign multinational companies.

#### **Management of Foreign Exchange**

Theoretically, since November 15, 1978 the external standard of the rupiah has been changed from its previous link to the U.S. dollar to a basket of currencies of Indonesia's trading partners. The currency composition of the basket and their weights are never disclosed by the authorities. By changing this standard, the variance of the Indonesian real exchange rate is, theoretically, reduced and the impact of external terms of trade on domestic inflation is theoretically moderated.

Nevertheless, empirical evidence shows that a close link between rupiah and U.S. dollar has remained after the last two devaluation measures. Rupiah rate to U.S. dollar is fairly stable compared to U.S. dollar rate to other major currencies. Because U.S. dollar is Indonesia's export currency, appreciation of it *vis-à-vis* other major currencies, has caused a downturn in Indonesian import prices (mostly originating from Asia and Europe), while her export prices have remained unchanged. In addition, holding of U.S. dollar has become more attractive in speculating for rupiah devaluation. As a result, the government depletes its holding of foreign exchange reserve in order to support the pegged rate.

## GOVERNMENT BUDGET

During the 1970s there was a rapid growth in the size of the government budget. Total revenue (in real terms) rose rapidly due to the two oil shocks in the decade. In 1969/1970, the first year of *Pelita I*, domestic revenue only equalled 9 per cent of GDP. Most of this came from indirect taxes on foreign trade. Ten years later in 1979/1980, at the beginning of *Pelita III*, domestic revenue had risen to 21 per cent of GDP (Table 5). In the 1979/1980 fiscal year, oil corporation taxes contributed 64 per cent of total domestic revenue, compared to only 20 per cent in 1969/1970. During the past decade, non-oil domestic revenue and foreign aid, as a share of annual GDP during the period, has remained unchanged. The non-oil domestic revenue has fluctuated around 7 per cent of GDP.

Table 5

GOVERNMENT REVENUE AND EXPENDITURE, 1969/70 - 1983/84  
(Rp billion)

	1969/1970	1974/1975	1979/1980	1981/1982	1982/1983	1983/1984 <sup>1</sup>
I. Domestic Revenue	243.7	1,753.7	6,696.8	12,212.6	12,418.3	13,823
Domestic revenue excluding oil	195.4	780.6	2,437.2	3,584.8	4,249.9	4,954
Oil corporation tax	48.3	973.1	4,259.6	8,629.8	8,170.4	8,864
II. Expenditure	309.4	1,827.0	8,076.0	13,917.7	14,335.9	16,565
III. Deficit (II - I)	65.7	93.3	1,379.2	1,705.1	1,937.6	2,742
IV. Gross Domestic Product (GDP) at current market prices	2,718.3	6,753	32,025.4	54,027 <sup>2</sup>	59,632.6 <sup>3</sup>	68,577.5 <sup>4</sup>
V. Export price of Minas oil (US\$1 barrel)	1.67 <sup>5</sup>	12.60 <sup>6</sup>	21.12 <sup>7</sup>	35.0 <sup>8</sup>	84.53 <sup>9</sup>	29.53 <sup>10</sup>
VI. As share of GDP (%)						
Domestic revenue	8.9	26	20.9	22.6	20.8	20.2
Domestic revenue excluding oil	7.2	11.6	7.6	6.6	7.1	7.2
Oil corporation tax	1.7	14.4	13.3	16.0	13.7	13.0
Expenditure	11.4	27.1	25.2	25.8	24.1	24.2
Deficit	2.5	1.1	4.3	3.2	3.3	4.0

Notes:

- <sup>1</sup> Budget figures
- <sup>2</sup> Revised figure
- <sup>3</sup> Preliminary figure
- <sup>4</sup> Estimates, assuming 15 per cent increases in nominal GDP in 1983/1984
- <sup>5</sup> As of January 1969
- <sup>6</sup> As of July 1974
- <sup>7</sup> As of July 1979
- <sup>8</sup> As of January 1981
- <sup>9</sup> As of November 1982
- <sup>10</sup> As of February 1983

Source: BPS, *Monthly Statistical Bulletin*, various issues.

As the oil tax revenue boomed so did total expenditures. The government has maintained its balanced budget policy ever since *Pelita I*. The meaning of the balanced budget is that the budget deficit is financed by foreign aid and loans, which are classified as "development revenues." Foreign aid and loans contributed to between 3 to 4 per cent of GDP during Pelita I and III. In 1970/1971 the contribution of foreign aid and loans to total revenues was 26 per cent, but this declined to 17 per cent in 1979/1980. Total government expenditures increased to almost 26 per cent of GDP in 1981/1982 compared to 11 per cent in 1969/1970.

Because the government revenue is so dependent on oil tax receipts, stagnation in the price of oil, which happened for several years following the first oil shock, caused total spending to be curbed. Due to the oil glut in recent years, following the second oil shock in 1979, oil tax receipts in U.S. dollar have been falling well below the expected level. Without the March 1983 devaluation, the 1982/1983 and the present 1983/1984 budgets could not have been balanced. Since the tax bureaucracy has been unable to raise revenue at home to make up the shortfall in oil tax receipts, the only alternative has been to reduce government expenditures. In 1982/1983 the government expenditures were reduced to 24 per cent of GDP.

For the second successive year, in January 1983 the government raised the price of domestic petroleum products to reduce the burden of subsidies on the budget. Subsidies on fertilizers and pesticides were reduced while subsidies on certain food items were abolished.

Wages of public servants were frozen for at least the 1983/1984 fiscal year. A range of cost saving measures (such as reducing purchases of government vehicles, halting the construction of new buildings for various government departments that had been scheduled for the 1983/1984 fiscal year) are also being implemented. These policies are intended to reserve as much as possible of the available resources for development programs. Nevertheless, some of the development expenditures are actually not capital expenditures since they are salary supplements that should have been classified under "routine expenditures."

On tax policies, as of 15 November 1982, the government has increased the departure tax from Rp35,000.00 per household to Rp150,000.00 per person, levied on residents of Indonesia. This tax is not related to the economic position of a taxpayer. On 5th November 1983, the government presented to Parliament a draft of the Income Tax Act, Value Added Sales Tax and Tax Procedures Act to replace the existing tax laws, except for the tax on oil companies. The objective of these proposed acts is to increase tax revenues by broadening the tax base, hopefully to make up for the decline in

oil tax revenue. The proposed tax system is simpler than the present one. Personal and corporate incomes are subject to the same tax rate. There will be only three brackets, compared to 58 in the present system. Those earning up to Rp10 million will be subject to a 15 per cent income tax rate. From Rp10 to Rp50 million the rate will be 25 per cent and above Rp50 million, 35 per cent. The government expects that Parliament will pass the draft into law before 1st April 1984 and back date its applicability to January 1st, 1984.

There are many reasons why tax collection is low in Indonesia. *First*, people are reluctant to pay tax since they have to pay levies fees, contributions and even bribes for services or documents they obtain from nearly all branches and layers of the government. Some of these collections are illegal and are not included in the budget. *Second*, the Indonesian legal and accounting systems are still relatively undeveloped and therefore there is no way to measure the economic position of a taxpayer accurately and to enforce regulation according to the letter of the law. *Third*, the taxation machinery is inefficient.

Tax collection is not only a function of the tax rate and tax base, but also of the efficiency, the ability and the honesty of the tax machinery. Tax reforms only deal with the tax rate, tax base and procedures. It will take a very long time to improve the legal and accounting systems, to strengthen the tax machinery and to change people's behaviour, as well as to improve government services, before the government can collect substantial revenue from domestic taxes.

#### MONETARY POLICY

As has been discussed in the previous section, since the oil price rise in late 1973, the government budget has become increasingly dependent on oil tax receipts and foreign aid and loans. These receipts do not reduce private domestic resources because they are transfers from foreigners. Oil tax revenues collected from domestically based foreign owned oil companies, for example, would otherwise have been repatriated abroad. These receipts, and export taxes are received by the government in foreign exchange.

On the other hand, most of the government domestic expenditures are in Rupiah. This expenditure adds directly to domestic demand. In the present balanced budget policy, deficits in the domestic part of the budget (in Rupiah) are financed by surpluses in the foreign component of the budget (in foreign exchange). In other words, the government monetizes its receipts in foreign exchange to balance its budget. As a result, the money supply has increased very rapidly during the last decade (Table 6) while net foreign assets of the

banking system has increased as well (Table 2). This analysis shows that the structure of the government's budget and its policy to keep it balanced are the main sources of increases in money supply and hence in inflation.

Table 6

MONEY SUPPLY, GNP, INFLATION RATE AND  
INCOME VELOCITY OF MONEY, 1970-1982

Year	Money Supply (Rp billion)	GNP (Rp billion)	Percentage Change in <sup>1</sup>		Income Velocity of Money <sup>2</sup>
			Money Supply	Price Level <sup>3</sup>	
1970	241	3,290	34	8.9	—
1971	320	3,605	70	2.5	12.8
1972	474	4,405	48	25.8	11.1
1973	669	6,508	41	27.3	13.4
1974	937	10,201	40	33.3	10.9
1975	1,250	12,087	33	19.7	11.0
1976	1,603	15,035	28	14.2	10.5
1977	2,006	18,332	25	11.8	10.1
1978	2,488	21,606	24	6.9	9.6
1979	3,385	30,541	36	21.8	10.4
1980	4,995	41,435	48	16.0	9.9
1981	6,486	52,102 <sup>3</sup>	30	7.1	9.0
1982	7,121	57,675 <sup>4</sup>	10	9.9	8.5

Sources: 1. Bank Indonesia, *Weekly Report*, various issues.

2. Biro Pusat Statistik, National Income of Indonesia (main tables), various issues.

Notes: 1 The Jakarta Cost of Living Index through 1978 and the Consumer Price Index for Indonesia (Composite of 17 cities) thereafter.

2 Income velocity of money =  $Y_t / \frac{1}{2} (M_{t-1} + M_t)$ .

3 Revised figures.

4 Preliminary figures.

To reduce inflationary pressures, Bank Indonesia, the central bank, has been using ceiling cum selective credit policies since April 1974 as instruments to control the expansion of total credits given by state-owned banks and to direct the allocation of credits by economic sector, by race of the recipient and by the size of the company. By definition, ceiling maintains status quo and therefore discourages competition among banks and between banks and other financial institutions. As a result inefficient banks are protected from being overcome by the more efficient ones. The existing capital market segmentation is preserved, thus tending to prevent reduction of cost of intermediation.

Selective credit controls involve the central bank more deeply with the state owned bank operations. To be effective, regulations on selective credit have to be more detailed. It is also necessary to organize effective supervisory machinery; problems of enforcement cannot always be left to conventional solutions. As a result, the state-owned banks need more time and resources for uneconomic administrative work to verify customers' dossiers and reports. In this kind of situation, bankers tend to be part of government bureaucracy and as a result more delay, uncertainty, and other inefficiencies are expected and less credit can be handed out.

The recent partial liberalization of the state-owned banks cannot and will not produce instant positive effects. Overstaffing cannot be solved overnight since firing people, even though they are unproductive, is unpopular. Their portfolio structure, organization, and procedures need to be changed, and this takes time. Liberalization needs a different set of qualifications for staff than is the case under a controlled system. A liberal system needs capable employees while a controlled system need subservient ones.

Loan rates have been subsidized at state owned banks and, for priority sectors, still are. At times, rates of interest are even lower than inflation rates during comparable periods. As a result, the recipients of credit are subsidized by simply obtaining credits from the state-owned banks. Since the allocation of credits is not done through an interest rate mechanism, their allocation is similar to rationing.

Since the real rate of interest is arbitrarily fixed at a point which is negative and much lower than its equilibrium level, saving, investment and financial intermediation are sub-optimal. As a result of subsidizing loan interest rates, for example, low yielding investment activities becomes feasible, which would otherwise be unprofitable at positive equilibrium real interest rate.

The effectiveness of credit rationing to pursue the stated government objectives is questionable. In order for a selective credit policy to be effective, the degree of bank credit fungibility would have to be zero. Fungibility is defined as the ability of business firms to borrow credits for a particular purpose but use it for others. As the entrepreneurial sector in Indonesia is traditionally engaged in a variety of activities, business firms are likely to apply funds for various uses, according to their needs, not necessary to the requirement imposed by the sources of the funds.

Since financing of their credits has been fully guaranteed by the central bank, the state-owned banks have been almost constantly over liquid. Because there is no need to mobilize funds, sometimes the state-owned bank have refused to receive new time and saving deposits. During the last years of the

last decade, the banks were encouraged to invest their over liquidity abroad. Since none of them has mastered the game in international markets, their overseas placements have been mostly in demand and short-term time deposits.

The present partial liberalization of the state-owned banks, under which they can set their own deposit rates as well as lending rates for non-priority economic sectors, will not produce immediate significant results either in mobilization of national savings or in a better allocation of resources. Because they have been fat cats for a decade, it will take time to build their capabilities to catch the mice.

Table 6 shows that rates of growth of the money supply have been consistently higher than inflation rates. This phenomenon can be partly explained by the increase in the demand for real balances due to increases in people's real incomes, and in the price level of non-essential goods. Another explanation is because the prices of many items used in calculating the price indexes are controlled and subsidized by the government.

Except in 1973 to 1975 and 1979, the income velocity of money has tended to decline since Pelita I. In the course of economic development since 1969/1970, with structural change and increasing urbanization and specialization, there has been an increase in market transactions at the expense of subsistence production. As a result, there has been an increase in the public's demand for real balances relative to output and thus to reduce the income velocity of money. The increase in velocity in 1973 to 1975 and 1979 was due to the oil shocks in those years that led to higher government expenditures, higher price expectation, and higher rates of inflation.

## FOOD PRODUCTION

Due to the long drought in 1982, paddy production rose only by 4 per cent in 1982, compared to 12 per cent in 1980 and 10 per cent in 1981 (Table 7). As a result *Bulog* reduced its domestic rice procurement and is expected to increase its imports in order to replenish its iron stock.

Production of other staple foods declined in 1982. Maize production dropped by 29 per cent so that it had to be imported from Thailand to meet the growing demand for animal food. Production of other *palawija*.crops such as cassava, peanuts and soybean also suffered since they are mainly produced in the dry season and largely on unirrigated land.

These problem are not a serious threat to food security in Indonesia since *Bulog* has proven itself as a dependable agency in dealing with food shortage

emergencies in the past. Nevertheless, the disappointing production of staple food came at a particularly bad time because of the oil glut. The reduction in total exports was accompanied by an increase in import of staple food.

Table 7

PRODUCTION OF FOOD CROPS, 1979-1982 (1,000 tonnes)

Crop	1979	1980	1981	1982
1. Paddy	26,283	29,652	32,774	34,104
2. Maize	3,606	3,991	4,509	3,207
3. Cassava	13,751	13,726	13,301	12,676
4. Sweet Potatoes	2,194	2,079	2,094	1,897
5. Peanuts	424	470	475	434
6. Soybean	680	653	704	514

Source: Bank Indonesia, *Indonesian Financial Statistics*, June 1983.

### FUTURE PROSPECT

Whether the government can maintain the momentum of development and lift the growth rate back to the 7-8 per cent range, depends upon its ability to compensate for the decline in oil taxes by mobilizing domestic resources through taxation and the banking system. Since development needs foreign exchange financing, the government ability to step up non-oil exports is also crucial. All forecasters predict that even though the nominal price of oil will continue to rise in this decade, in real term it is going to decline.

The first quarter after partial liberalization of the banking system witnessed a dramatic change in the composition of deposits at state-owned banks. Their holdings of time deposits with maturities of up to one year has been increasing at the cost of a declining trend in demand deposits with a maturity of 24 months. This evidence shows that bank customers do change their structure of portfolios as a reaction to the changes in the term structure of interest rates that had been brought about by the partial liberalization in the banking system. The outstanding position of overall time deposits with state banks increased from Rp911.8 billion (May 1983) to Rp1,581.7 billion (September 1983), an increase of more than 50 per cent in less than four months.

Theoretically, mobilization of savings through the banking system can be increased as long as it is convenient, it is simple, it is safe and, as long as it of-

fers a satisfactory return for savers. The savings rate in Indonesia is quite high. For example, an analysis of *Susenas* data (National Expenditure Survey) suggests that in rural areas, households save on average about 20 per cent of their income. Unfortunately, only a small fraction of that enters the formal financial system.

Mobilization of saving through the banking system can also be increased by making payments of most of government's transactions (including civil servants' salary) through the banking system compulsory, that is by using checks that can be cashed at any bank. Another measure would be to increase the ratio of monetization of the economy, that is, to increase the volume of money relative to national product, before spilling over into inflation. Currently, the ratio of money, in its broad definition, to GDP in Indonesia (19 per cent) is much lower than in Malaysia (53 per cent), in India (28 per cent), or in Nigeria (28 per cent). To increase the degree of monetization of GDP, the number of branch offices of the banks should be increased and public relations campaigns by the banks should be intensified because many people do not know about the advantages, purposes and functions of a bank and a banking system.

Extending of loans encompasses a totally different set of issues from savings mobilization. The latter is concerned intimately with incentives for saving. The first relates to the bank's transaction cost and its perception of efficiency of the loan market. Transaction cost is the administrative cost per unit of loan. Efficiency of the loan market relates to the bank's perception of uncertainty with regard to the productive return of the project that is financed by the credit, and the ability of the bank to select honest borrowers and projects that give greater mean returns.

Ceiling cum credit policies with subsidized loan interest rates had increased transaction cost of the state-owned banks. High default rates on their credit shows their inefficiency in extending loans. These reasons along with the current economic downturn have slowed credit expansion of the state-owned banks after liberalization.

In September 1982, the central bank issued a regulation to control foreign assets of the state-owned banks. Since then, these banks cannot freely convert their Rupiah excess liquidity into foreign assets. In return, Bank Indonesia offers a 13.5 per cent interest rate on excess reserves of commercial banks deposited at the central bank. Excess reserves would have otherwise been neutralized without interest cost by increasing their reserve requirement.

Aside from the above policy, until now, six months after partial liberalization, it is not clear what is the target of the monetary policy of Bank Indonesia,

much less the types of instruments it uses in executing the policy. There has been no announcement on the targeted rate of growth of its domestic credit (and money supply), and there is no rediscount rate on the non priority sector. This aggravates the uncertainties that are now faced by the banking system and the whole financial system at large.

To achieve the more important economic objectives of the government in mobilization of domestic savings, better allocation of economic resources, and promoting non-oil exports, the present discrimination on private banks should be relaxed. Small domestic banks, which traditionally serve small firms and small savers, should be encouraged to increase their participation in mobilization of small savings as well as in channelling credits to this class of customers. Expertise of foreign banks should be used to expand non-oil exports. There is little doubt that they have more experience in dealing with financing of export counter purchase, than state-owned banks have. For these reasons, these banks should have more access to rediscount facilities at the central bank.

To reduce pressures on the government budget, government investment through state-owned enterprises have to be reduced and reviewed. The state-owned enterprises should be encouraged to mobilize funds through capital market, as successfully done by PT Jasa Marga, a toll road public company. New public investment has to be concentrated on provision of public goods, leaving more of the production of private goods to the private sector. The public companies need to be re-dressed and strengthened in order to make them agents of development or at least not burdens to society.

Decontrol, deregulation and other non-interventionist programs are necessary to place more reliance on market forces in order to create an environment in which businessmen can operate without too much direct interference from the government bureaucracy. The existing pricing and industrial policies and licensing procedures for investment and for trade have become too burdensome for the economy and production and have hindered the export promotion of non-oil commodities.

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PERSPECTIVES ON NATIONAL ECONOMY VIEWED

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[Article by Djisman S. Simandjuntak: "Perspectives on the Indonesian Economy: Towards the Year 2000"]

[Text]

Any study on future development is subject to uncertainties. On the one hand changes may come too rapidly that no one can anticipate them. When the main elements of the present International Economic Order were set up at the end of the forties, nobody could have foreseen that their main proponents would quickly change their position when new competitors like Japan and South Korea entered the world market with an unprecedented vitality. On the other hand, changes may take place too slowly or just fail to appear. The economic emancipation of the then colonized America, Africa and Asia, once anticipated by Adam Smith,<sup>1</sup> has, by and large, failed to materialize though more than 200 years have elapsed since the publication of "The Wealth of Nations."

In short, between the present and the future there is a bridge which is full of uncertainties. Nevertheless, we can be quite sure of a few things. First, population trend cannot be reversed abruptly. Second, there is a permanent struggle of people for better living conditions. Third, what the future may look like depends to a large extent on the achievements of the present generation.

Disagreement may exist on what constitutes better living conditions. But to a low-income country like Indonesia it means, among other things, higher calorie, protein and fat intake, better housing, better clothing, improved health

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<sup>1</sup> Adam Smith, *An Inquiry Into the Nature and Causes of the Wealth of Nations* (New York: Modern Library, 1937), p. 591.

condition, higher level of education and better income distribution. One can easily extend the list of these indicators or further specify them. What is important is the fact that the resources available to an economy are scarce.

The relative unlimitedness of human needs in terms of the availability of resources postulates a resource management within an economy irrespective of its *de facto* system. To facilitate such a management one needs to identify the main contours of future development. No doubt, such a venture involves a certain degree of speculation which will be the greater, the longer the future period one has in mind.

## GROWING POPULATION

As of mid-1980 Indonesia has a total population of 149.5 million resulting in a density of 78/km<sup>2</sup> which is higher than the world average though not necessarily alarming.<sup>2</sup> Indonesia has a huge area at its disposal which is still waiting for human touch. What concerns the country is the race between economic development and mounting population problems rather than the absolute number of its population.

Various studies have been made on the trend of Indonesian population. Prominent among them are the projection of Indonesia's Central Bureau of Statistics (BPS) made in 1979 with a revised version published in 1983<sup>3</sup> and the World Bank's projection from 1979 which is continuously updated.<sup>4</sup>

One of the main findings of these studies concerns the growth rate of Indonesia's population which increased from 2.1 per cent in the sixties to 2.3 per cent in the period between 1970 and 1981.<sup>5</sup> This increase was to some extent surprising in view of the tremendous efforts made by the government to promote family planning. But there is a simple explanation for this increase. As the average earnings of the population increased, more resources had been spent for health improvement resulting in a decreasing death rate. In fact the crude death rate in Indonesia declined by 41.8 per cent between the sixties and the

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<sup>2</sup>*Proyeksi Penduduk Indonesia 1980-2000* (Jakarta : Biro Pusat Statistik Indonesia, 1983), p. 44.

<sup>3</sup>*Ibid.*

<sup>4</sup>The World Bank's population projection is regularly published in its annual World Development Report.

<sup>5</sup>*Nota Keuangan dan Rancangan Anggaran Pendapatan dan Belanja Negara 1983/1984* (Jakarta: Departemen Keuangan, 1983), p. 247.

seventies, while the crude birth rate decreased more slowly, namely by only 24.4 per cent.<sup>6</sup>

As to the future trend, both the BPS and the World Bank estimate a lower growth rate of population. It will, according to BPS, be steadily decreasing from about 2.2 per cent in the first half of the eighties to about 1.9 per cent in the second half of the nineties,<sup>7</sup> whereas the World Bank expects a growth rate of 2 per cent for the last two decades of this century. It is assumed that a reproduction rate of 1 will be reached in the year 2020 and stationary population of about 400 millions in the year 2140.<sup>8</sup> It follows that the country's total population would increase from 148 million in the mid-1980 to 222.7 million at the turn of the next century and to 327.7 million in the year 2025.

An increase in population does not necessarily mean a heavier burden to an economy. If new employment opportunities can be created, population increase may contribute to the improvement of the welfare of a nation. Indeed, some countries have, from time to time, suffered from labour shortage rather than from labour surplus as was the case in Europe of the sixties. The same phenomenon has also appeared in the oil exporting countries of the Middle East since the late seventies following the huge inflow of oil money. Nevertheless, in many developing countries population increase has turned out to be a serious problem due to the inability of the economy to generate employment opportunities on a sufficient scale.

Among the many challenges Indonesia is going to face in the coming decades is the creation of employment opportunities. It is expected that the country's labour force which amounted to 48.9 million in 1976, would increase at an annual rate of no less than 2.5 per cent until 1985 and 2.4 per cent in the last fifteen years of the century. The result will be a labour force of approximately 61 million and 83 million in 1985 and 2000 respectively. Bearing in mind the employment problems facing Indonesia up to the present a question has to be raised as to the ability of the economy to absorb in a productive way the expected increase in labour force. In this connection some unfavourable conditions need to be scrutinized.

Indonesia's population is highly uneven in terms of its regional distribution. As of mid-1980 about 62 per cent of the total population was in Java with little chance for immediate redistribution. In its 1983 projection the BPS

<sup>6</sup>World Bank, *World Development Report* (Washington, D.C.: Oxford University Press, 1983).

<sup>7</sup>Proyeksi Penduduk, p. 33.

<sup>8</sup>World Development Report, p. 184.

estimates that this percentage will decline only slightly and remain in the order of 60 per cent until 1990. Yet Java constitutes only a small part, namely 6.95 per cent, of the total area of Indonesia. Java's arable land is practically exhausted. Any production increase of the agricultural sector which in 1978 had a share as high as 57 per cent of Java's total employment, will have to originate from productivity increase. But productivity of land, in particular that of a highly fragmented one, cannot be improved infinitely. Hence, efforts must be made to generate alternative employment.

To some extent, the employment problem of Java may be alleviated if non-agricultural activities can absorb an increasing percentage of the growing labour force. In fact, there was a structural shift of Java's employment in the seventies. The share of agriculture in total employment did decline from 62 per cent in 1971 to about 57 per cent in 1978. However, there are obstacles to a rapid structural change. In most cases, structural change presupposes the introduction of new technology which in turn may lead to a temporary labour displacement. This dilemma has forced the government to refrain frequently from enforcing adjustment measures favouring instead the preservation of existing structure with all its deficiencies. In consequence the relative immobility of labour is reenforced, not to mention the shortage of education facilities which deter people from changing their professions.

Given the various obstacles to structural adjustment the transmigration, i.e. a migration from Java, Bali and the Sunda Islands to other thinly populated areas of Sumatra, Kalimantan, Sulawesi and Irian Jaya, appears to be a good way of reducing tension in Java's labour market on the one hand and of making use of uncultivated land in other islands on the other.

Certainly, a migration of this kind can never be a panacea for employment problems Indonesia is likely to face in the coming decades. Experiences in the seventies show that the number of transmigrants was modest despite its annual increase of about 27 per cent. Between 1969/1970 and 1981/1982 there were only 323,221 families<sup>9</sup> who left Java, Bali and the Sunda Islands under the transmigration scheme, whereas in the same period Java's population alone increased by no less than 18 million which is equivalent to 3.6 million families of average size. Therefore, transmigration cannot be a substitute for structural change. However, its importance cannot be overemphasized. Transmigration can support the structural change in two ways. *First*, it can slow down the speed of land fragmentation in populous areas and, thereby, make possible further improvement of land productivity. *Second*, it reduces the number of people who have to move to major cities for industrial employment without

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<sup>9</sup>Nota Keuangan, p. 252.

the necessary skills. Moreover, an eventual success of the pioneers among the transmigrants and an improvement of transport facilities may attract people to transmigrate spontaneously, that is with a minimum financial support from the government.

Summing up this section, five points need to be emphasized. *First*, Indonesia's population would rise continuously, reaching a number of 222 million in the year 2000 and possibly 328 million in the year 2025. *Second*, labour force would increase accordingly, underlining the need for economic growth. *Third*, the distribution of the population would remain unfavourable. *Fourth*, new employment opportunities would largely depend on structural shift of the economy. *Fifth*, transmigration and family planning cannot be a substitute for structural change in generating new employment opportunities.

## GROWTH OF INCOME

Changes in income constitute the second variable on which the future welfare of a society largely depends. Apart from minor welfare improvement which can emanate from a reallocation of existing income, a permanent struggle for better living conditions implies a need for moving to a higher level of income. This is particularly true for a low-income country. Yet the growth of income is difficult to predict. Although technical information on a country's resource endowment is available to some extent, it frequently turns out to be of little usefulness for an assessment of future development. As soon as the variability of prices enters into an analysis, the reliability of an estimate on future availability of resources will be seriously undermined. The irritant development in international commodity markets since 1950 tells that economic availability of resources may change overnight. This is not an argument against quantitative assessment of future income. The point is that the result of such a study should be interpreted in a cautious way.

In its two studies on future development of Indonesia's GDP the Institute for Economic and Social Research at the University of Indonesia (LPEM) has first estimated the value-added of the primary and secondary sectors as a starting point for the estimation of future GDP. Given the expected value-added of these two sectors, the value-added of the tertiary sector is estimated by using a simple regression. The expected total GDP is then obtained by adding the expected value-added of all sectors.<sup>10</sup>

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<sup>10</sup>Laporan Proyek Perspektif Jangka Panjang Perekonomian Indonesia Tahun 2000 (Jakarta: Lembaga Penyelidikan Ekonomi dan Masyarakat Fakultas Ekonomi Universitas Indonesia, 1978). The revised edition of this study was published in 1981.

Based on this approach the revised version of the LPEM study has come to two variants of growth rate of future GDP, namely the lower and the higher variants. The present study uses the lower variant according to which the annual growth rate of Indonesia's per capita GDP would be in the order of 3.9 per cent between 1978 and 1985 and 3.6 per cent in the last fifteen years of the century. No mention has been made of the possible growth rate in the years beyond 2000. But in his study on Indonesia's energy planning Alan Strout estimates that the annual increase of the per capita GDP will further decline, ranging from 3.1 to 3.5 per cent in the first quarter of the next century.<sup>11</sup>

Other studies, including that of Prof. Sumitro Djojohadikusumo have come to growth rates which differ only slightly from that of the LPEM as can be seen from the Appendix of this paper. But for reasons of simplicity the lower variant of the LPEM estimates is used for the purpose of simulating the possible aggregate effects of changes in population and income on other economic variables. No doubt, this step is arbitrary. But proceeding this way seems to be more fruitful than allowing oneself to be involved in an endless debate on whether or not a specific study is to be preferred. Indeed the lower variant of the LPEM estimates appears to be too pessimistic in view of the fact that between 1971 and 1981 Indonesia's per capita GDP grew at an annual rate of 5.1 per cent.<sup>12</sup> The same variant, however, looks too optimistic if reference is made to the year 1982 when the world recession began to spread over the Indonesian economy and the growth rate of per capita GDP abruptly fell to less than one per cent.

Whether Indonesia will be able to attain or even surpass an annual increase of per capita GDP of 3.9 per cent in 1978-1985, of 3.6 per cent between 1985 and 2000 and of 3.1 per cent in the first quarter of the 21st century remains to be seen. The meagre growth rate in 1982 and 1983 and the prolonged depression of international oil market indicate that the Indonesian economy may grow only at a modest rate in the coming two or three years. But a capacity for higher growth rate exists. Measures consisting of the 1982 export promotion package, the rupiah devaluation early in 1983, and the deregulation of the banking system in June 1983 have also been taken by the government to promote structural adjustment. If these measures work as expected, the Indonesian economy may regain its vitality in the near future. The growth of per capita GDP estimated by the LPEM -- this growth rate is lower than the government target for the next Five Year Development Plan = may turn out to be a realistic one.

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<sup>11</sup>Alan M. Strout, 1980, *Energy Planning for Development in Indonesia: Macroeconomic Structure and Energy Demand; Indonesia to the Year 2000*, p. 16, Setauket, Energy/Development International.

<sup>12</sup>*World Development Report*, p. 148.

Given Indonesia's per capita GDP of Rp75,214.00 in 1981 (all figures in constant 1973 prices) and assuming a growth rate of one per cent for the difficult years 1982-1985, of 3.6 per cent between 1985-2000 and of 3.1 per cent in the first quarter of the next century, the expected Indonesia's per capita GDP will increase to Rp78,268.00 in 1985, Rp133,039.00 in the year 2000 and Rp244,992.00 in the year 2020.

#### FOOD: POSSIBLE SELF-SUFFICIENCY

Food consumption tends to increase progressively until a certain level of income is reached. As Indonesia's per capita GDP increased by 5.1 per cent between 1969 and 1981, rice consumption grew at an annual rate of 5.2 per cent resulting in an income elasticity of 1.01961. It follows that further increase in income will result among other things in higher rice consumption. But rice represents only a fraction, though by far the biggest one, of the total food consumption of an average Indonesian. Calorie, protein and fat are also gained from consumption of other crops, vegetables and meat. Accordingly, a more comprehensive picture of income-food relationship can be obtained first by converting each component of food consumption to a common unit.

A regression based on data available for the years 1969-1981 indicates a strong relationship between per capita income and calorie intake.<sup>13</sup> Assuming the constancy of the regression coefficients the daily per capita calorie intake may increase from its actual level of 2570 in 1980 to 2573 in 1985 and 3373 in the year 2000. However, as of 1980 the contribution of rice to total calorie intake of an average Indonesian was 51.94 per cent. Should this contribution remain unchanged, Indonesia's per capita rice consumption may increase to 172 kg in the year 2000. But this is a hypothetical level.

The saturated level of per capita rice consumption in Indonesia is assumed to be 170 kg/year<sup>14</sup> resulting in a total consumption of 37.9 million tons in the year 2000 or 66 per cent above the consumption level of 1981. This implies that domestic rice production has to increase by 2.8 per cent or more annually in order to be self-sufficient in the year 2000. Bearing in mind various programs

<sup>13</sup>Calorie-income equation:  $X = 1428.8691 + .0146127 Y$  where X and Y stand for per capita calorie intake and per capita income at 1973 price respectively.  $R^2 = .777899$ ;  $T = 5.918149$ .

Protein-income equation:  $X = 39.2052 + .000111 Y$ , where X and Y stand for per capita protein intake and per capita income respectively.  $R^2 = .458255$ ;  $T = 2.908$ .

Fat-income equation:  $X = -10.4621 + .000841 Y$ , where X and Y stand for per capita fat intake and per capita income respectively.  $R^2 = .915487$ ;  $T = 10.4079$ .

<sup>14</sup>This figure is calculated by Biro Pusat Statistik based on *Susenas* (Social and Economic National Survey) 1976 as cited by the World Bank in its Report No. 2093-IND, p. 121.

launched by the government which eventually led to an annual growth rate of rice production of no less than 5.1 per cent between 1969 and 1981, one can reasonably anticipate that in the year 2000 and beyond Indonesia's rice production may exceed the domestic demand, if only slightly.

Obviously, the production of other food crops must increase as well. Otherwise, people may consume rice beyond the assumed level of saturation in order to attain a certain level of calorie intake. To avoid such a development measures need to be taken aimed at a more diversified pattern of food supply and demand. In this connection, greater attention should be paid to price policy. If the administrated price of rice continues to be relatively low -- this has been made possible through fragmented subsidization on both the supply and demand sides -- the food diversification policy is deprived of its most effective mechanism.

The above analysis conveys an optimistic view on the future trend of Indonesia's food market. Despite population increase domestic production is expected to be able to meet domestic demands. Nevertheless, mention must be made of possible bottlenecks to avoid overconfidence. There is a strong relationship between food production and the use of fertilizer and pesticides. This is particularly important to be borne in mind in view of our assessment that, to an increasing extent, future expansion of Indonesia's food production has to originate from higher productivity. Experiences in the past years show that Indonesia's fertilizer production may increase rapidly in the coming years. Nonetheless, efforts should be made to improve the distribution network.

Development of high yielding seeds and improvement of land management are required as well. Further fragmentation of agricultural land which among other things means a disqualification from intensification programs should come to a halt. The smaller the parcel available to a farmer, the more difficult it will be for him to participate in any scheme of intensification program. Consequently, new arable land outside Java has to be opened up along with the enforcement of structural adjustment to make possible the absorption of new labour force.

#### ENERGY: URGENCY OF SUBSTITUTION

No doubt, Indonesia is in a relatively better position than many other developing countries because of its relative abundance of energy resources. The country is richly endowed with petroleum, natural gas, coal, hydropower, geothermal, wood and "non-traditional" energy resources such as solar and wind energy. Indeed, Indonesia is a net exporter of energy. Its main concern

in the coming decades is the availability of oil for export rather than the ability to meet increasing domestic demand. To make this point clear, it must be stressed that Indonesia's balance of payments is heavily dependent on oil export. Even under the condition of depressed oil market, oil's contribution to Indonesia's total export in 1982 was still no less than 66 per cent. Since the prospect for non-oil exports has improved only marginally, there is a need for maintaining a certain volume of oil for export. Consequently, efforts have to be made to enhance the substitution of alternative energy resources for oil in satisfying the increasing domestic energy demand. The possibility is there for doing so provided that the government is firm in enforcing an appropriate policy.

During the seventies the income elasticity of Indonesia's total energy consumption was highly irritant. A regression based on data available for this period shows an elasticity as high as 1.7, which means that each incremental unit of GDP was accompanied by an increase of no less than 1.7 unit in energy consumption.<sup>15</sup> In some years the elasticity was extremely high reaching, for example, 3.46 in 1978. But there were years where it declined to less than one.

The following is a possible explanation for the irritant development in Indonesia's energy consumption during the seventies. *First*, an S-Shape GDP-energy curve is observable in an economy which is moving from a very low base of industrialization. *Second*, Indonesia's economic policy in the seventies favoured the development of import substituting industries. Yet in its early stage import substitution is normally concentrated on finishing stage of production process. Import substitution tends to be extensive in its product coverage with little room for intensification. Accordingly, the average value-added of industrial activities is low. *Third*, for a long time the price of energy was kept low in terms of international price and production costs. Had there been no subsidization, Indonesia's energy consumption in the seventies might have shown a lower growth rate.

As regards future development one has to take into account various efforts made by the government to encourage a more efficient use of energy. These include the continuous adjustment of domestic price and promotion of non-oil energy such as coal and geothermal. In other words, there are reasons to expect a lower income elasticity of the energy consumption in the coming decades.<sup>16</sup>

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<sup>15</sup>The energy-income equation based on data available for 1969-1981:  $\ln E = -33.79239 + 1.703529 \ln Y$ , where E and Y stand for energy consumption and GDP at constant 1973 price respectively.  $R^2 = .980628$ ; T = 23.597.

<sup>16</sup>Cf. Wijarso, "The Energy Game: An Indonesian Version," *The Indonesian Quarterly*, vol. V, no. 3 (July 1977), p. 34.

Given the expected rate of growth of per capita GDP as specified above and assuming that the energy elasticity of the GDP will remain in the order of 1.7 until 1985 but then decline to 1.5 in the subsequent fifteen years and to 1.3 in the first two decades of the 21st century, the future energy consumption can be estimated. It would increase from its actual level of nearly 37 million ton coal equivalent (TCE) in 1981 to 46 million TCE in 1985; 157 million TCE in the year 2000 and 568 million TCE in 2020. Given a conversion rate of 1 TCE = 5.05 barrel oil equivalent (BOE) and assuming further that the share of oil in the total energy consumption remains in the order of 81 per cent as it was in 1980, the estimated oil consumption will increase to 188 million BOE in 1985, 642 million BOE in the year 2000 and 2,323 million BOE in 2020. Notice that a more staggering figure will be obtained if the income elasticity of energy cannot be lowered from its high level during the seventies.

A rapid increase in oil consumption will have serious impact on Indonesia's balance of payments due to the heavy dependence on oil. Though the estimated recoverable resources of oil range from 53.8 to 120.2 billion barrels,<sup>17</sup> it seems to be extremely difficult to boost production to a level which is substantially higher than 1.7 million barrel a day, the highest level Indonesia has ever attained. Therefore, greater attention should be paid to the demand side of the energy market. Measures need to be taken to get down the income elasticity of energy to the lowest possible level. The government should adjust continuously the domestic oil price and to refrain from giving incentives to industries which use energy intensively but at the same time produce small value-added. Furthermore, a shift towards energy resources other than oil should be promoted. If the share of oil in total energy consumption can be reduced by, say, 10 per cent, a substantial amount of oil can be diverted to export. And the possibility of doing so is there.

Coal and natural gas are available in huge quantities. The use of geothermal and hydropower can also be extended and so can solar and wind energy, if in a more distant future.<sup>18</sup> What the country is lacking are technology and well-trained personnel along with an energy policy which is conducive to the stated objective of energy diversification. But these constraints are not insurmountable, provided that the government is determined to pursue a more diversified pattern of energy consumption.

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<sup>17</sup>Cf. M. Hadi Soesastro and Budi Sudarsono, "Minerals and Energy in Indonesia: Production, Consumption and Trade 1966-1981," (Jakarta, ASEAN-Australia Joint Research Project, Studies on Minerals and Energy Trade and Minerals Processing), p. 25.

<sup>18</sup>As regards the prospect for energy diversification. Cf. Wijarno, "Energy Game."

## INVESTMENT AND ITS FINANCING

Investment is the key to future development. The higher the level of economic development, the greater will be the investment which is required to generate an additional unit of GDP. This phenomenon of increasing capital-output ratio has been observed in various economies including that of Indonesia. As between 1969 and 1981 Indonesia's GDP grew by 7.9 per cent annually, domestic capital formation showed an annual increase of 15.7 per cent or nearly twice that of total GDP.<sup>19</sup>

In the revised version of its study on future development of the Indonesian economy the LPEM estimates that the share of investment in Indonesia's GDP would range from 19.3 to 24.8 per cent in 1985 and from 20.4 to 27.8 per cent in the year 2000.<sup>20</sup> These figures are obtained by first computing the expected gross value-added of each sector of the economy. Using an estimated ICOR the amount of the necessary investment for each sector is then calculated. Through a simple summation the expected total investment is obtained. Given the estimated GDP of Rp12,926 billion in 1985 and Rp29,634 billion in the year 2000 (all figures in constant 1973 prices) the necessary investment would range from Rp2,495 to Rp3,206 billion in 1985 and from Rp6,045 to Rp8,238 billion in 2000.

It is difficult to assess to what extent the financing of this investment can rely on Indonesia's domestic saving. Obviously, domestic saving consists of government saving, which is the difference between domestic revenue and routine expenditure of the central government, and private saving. The government saving is heavily dependent on oil income, the so-called "Corporate Tax on Oil Companies." As of 1981/1982 the contribution of this revenue segment to total domestic revenue was 70.6 per cent. Any decline in oil price will severely affect the government finance as was apparent in 1983 when the oil price declined from US\$34 to US\$29/barrel and the government was forced to devalue the rupiah in order to maintain the rupiah value of the declined dollar value of oil revenue. On the other hand, an increase in oil price can substantially improve the government finance. But the prospect for such an increase is dim. Therefore, efforts must be made to mobilize alternative sources of revenue on the one hand and to promote efficiency of government expenditures on the other. In this connection, the proposed reform of the tax system should be mentioned as a gesture of the willingness of the government to adjust to changed conditions. By doing so the government can prevent an abrupt decline of its saving.

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<sup>19</sup>*Nota Keuangan*, p. 24.

<sup>20</sup>*Laporan Proyek*, p. 37.

Unlike government saving, which is highly dependent on a single variable, namely the price of petroleum, private saving is sensitive to various factors which are difficult to assess. They include the preference for hoarding, the level of both domestic and international interest rates in real terms, the ability of the money and capital market to differentiate investment assets according to different preferences of savers and, the stability of the rupiah *vis-à-vis* other currencies. In an economy where the free movement of capital is guaranteed, a minor change in one of these variables can induce an unprecedented movement of domestic saving. In other words, the future trend of private saving is less predictable than that of government saving. Nevertheless, observers of Indonesia's monetary policy generally agree that a considerable portion of the country's saving potential has remained untapped. A full mobilization of this potential is deemed difficult due to a high preference for hoarding, devaluation syndrome, lack of appropriate investment assets and the ambivalent attitude of the government as to the role of the private sector in money and capital market.

A major change in Indonesia's banking system occurred in June 1983 when the government launched a partial deregulation aimed at a greater role of the private sector in financing economic development. Among the most important measures of this deregulation are: (a) the termination of the government's privilege to fix interest rate and credit ceiling; (b) the formation of interest rate and expansion of credit according to prevailing market conditions; (c) the attenuation of the privilege enjoyed so far by the state commercial banks which have a dominant role in Indonesia's banking system. In short, through this deregulation the country's banking business is expected to be more competitive. Financial institutions are expected to develop their own sources of financing in order to be able to stay in business.

Six months may be too short a period for this deregulation to work fully. Moreover, it was launched at a time when the recession hit the economy badly. In view of this the increase of saving in the first six months since the deregulation has appeared to be encouraging. Indeed, new problems arise when it turns out that demand for credits is slackening due to the economic slowdown leading to an overliquidity of the banking system. If the widening network of parafiscal institutions, particularly that of insurance companies, is taken into account, one can expect that private saving will continue to increase, meaning that saving gap will matter less than other kinds of bottleneck. And the government can and should make use of the potential of the private sector to generate saving. It can reduce its direct involvement in financing state enterprises and public utility companies by pushing the latter to look directly for funds in the capital market.

Obviously, investment financing cannot rely entirely on domestic saving. To a large extent, future development of the Indonesian economy will remain dependent on imported capital goods and intermediates. Import constituted about 38 per cent of total inputs, excluding machinery, used by Indonesian industry in 1981.<sup>21</sup> If depreciation of machinery and the royalty paid for foreign licenses are included, the import content of Indonesia's industrial production may turn out to be as high as 70 per cent or over.

There is no short cut to the reduction of this import dependence. Experience in other countries shows that the transition from the early stage of import substitution to the more sophisticated ones is difficult to accomplish. It takes time for the domestic demand for machinery to reach a minimum scale which eventually justifies domestic production. The same applies to the acquisition of skills and accumulation of capital. In other words, Indonesia is likely to remain a net importer of capital goods for at least two decades from now, though substitution is certainly possible to a certain degree. This leads the discussion to the external sector of the economy.

In the preceding section of this paper mention has been made of the high dependency of Indonesia's balance of payments on oil export. Yet the latest development in international oil market is, from Indonesia's point of view, not encouraging. The long expected recovery in major industrial countries has turned out to be weak and tended to concentrate on few sectors especially construction. Consequently, it has failed to push the demand for oil. Furthermore, the repeated increase of oil prices in the seventies led to a substantial decline in income elasticity of energy in major developed countries on the one hand and a larger supply of oil in international market on the other. Under these conditions the possibility for oil prices to increase in the near future is small. Indeed, the more likely scenario is that OPEC and other oil exporting countries would have difficulties in maintaining the present price of US\$29 per barrel. This "gloomy" picture may continue until the early nineties, if not longer, underlining the need for restructuring Indonesia's export.

Theoretically, the possibility is there for Indonesia to diversify its export. The country's non-oil export is still dominated by unprocessed commodities consisting of wood, rubber, coffee, tea, palm oil, tobacco, tin and copper. Hence, there is considerable room for increasing export through further processing of these commodities. Besides, the success of the Thais in exporting tropical fruits and vegetables in a considerable volume suggests that the saturation of international market is only partial in nature. Opportunity is still there for late comers like Indonesia to extend its export palette by introducing new export commodities.

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<sup>21</sup>Author's calculation based on 1981 Industrial Survey of Biro Pusat Statistik.

However, nothing is new in this idea of export diversification. The tremendous obstacles to its implementation are also wellknown. It is not realistic to expect that these obstacles can be removed in the near future.

Given these difficulties, Indonesia's non-oil export is expected to grow only slightly in the coming years. Since, for the sake of economic growth, a certain level of import needs to be maintained,<sup>22</sup> Indonesia is likely to face difficulties in its current account balance. This postulates the need for foreign financing in the form of both direct investment and external borrowing.

Obviously, there are various limitations to external financing. Though some of them have remained controversial, the fact is that any inflow of direct foreign investment and borrowed funds will induce a capital outflow in due course, the financing of which is dependent on export earnings. In the long-run, therefore, foreign exchange has to originate from export. And the possibility for Indonesia to increase its non-oil exports is not as bad as the present trend might suggest. What the country badly needs is a consistent policy of export diversification.

Measures need to be taken to promote the involvement of the private sector in raw-material processing industries where so far state enterprises, many of which are highly inefficient, have an uncontested dominance. These measures include a relaxation, if not a liberalization, of the loosely defined policy as regards development projects which are reserved for state enterprises. Changes are also necessary in the boundless jungle of government regulations relating to production and distribution including exportation. Indonesia can improve its international competitiveness if these regulations which have become a fertile land for rent seeking activities and, thereby, impaired the country's ability to compete internationally, can be simplified. This must be within government's reach whose dependence on oil in generating its revenue and foreign exchange earnings has turned out to be precarious.

#### FACILITATING STRUCTURAL ADJUSTMENT

The preceding sections of this paper has described where Indonesia wants to be in the year 2000 and 2020 and which challenges the country is likely to face in its journey towards the expected future. In order to be able to meet these challenges, various adjustments must be made. Indeed, the main message conveyed by this paper is the urgency of structural adjustment. If properly implemented, it can transform the huge potential of the country into a real economic strength.

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<sup>22</sup>Obviously, financing of import is not the only motive for export.

For reasons relating to employment and accelerated economic development, the dependence of the economy on the primary sector should further decline. True, the Indonesian economy has witnessed a substantial structural change in the last decade. The share of the primary sector in GDP steadily declined from 56.3 per cent in 1969 to 38.4 per cent in 1981, whereas that of the secondary and tertiary sector increased to 21.7 and 39.9 per cent respectively.<sup>23</sup> These changes are, according to Strout, close to the "norms" once anticipated by Chenery and Syrquin. Nevertheless, further adjustment is necessary. And the LPEM estimates that the share of the primary sector will further decline to less than 30 per cent in the year 2000. On the other hand, the share of the secondary and tertiary sector will increase to 26 per cent and 44.9 per cent respectively.<sup>24</sup>

Changes are also needed in respect to food and energy consumption, government finance and trade. A huge amount of investment will be needed, along with well trained labour and a growing number of entrepreneurs who are willing to bear risks emanating from any structural shift. Meanwhile, conflicts may arise between various competing interest groups the management of which has usually turned out to be difficult.

There is an apparent conflict between the "modern" segment and the "traditional" one within each sector of the economy. Expansion of the modern segment is generally perceived as a threat by the traditional sector which in turn consists of countless small establishments with low productivity. A similar conflict may arise or heighten between companies' management and labour organizations due to differing views on the economies or diseconomies of structural adjustment. The latter usually requires the introduction of new technology which, at least temporarily, is accompanied by decreasing demand for labour.

Bearing in mind this potential for conflict, the government has frequently become indecisive as regards structural adjustment. Entrance to various industrial branches is highly restricted lest the increasing competition may force the small establishments out of business. The recent history of Indonesia's agriculture, fishery, manufacturing and banking is characterized by this dilemma. Fragmented efforts have been made to bring about a mutually beneficial link between the two groups of establishment. The record, however, is not encouraging. The distrust of big business establishments continue to exist, especially of those where the majority of capital or management is in the hands of the Chinese. Given this distrust the "Leviathan" can easily legitimize its intervention in the business sector irrespective of worsening inefficiency.

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<sup>23</sup>*Nota Keuangan*, p. 21.

<sup>24</sup>*Laporan Proyek*, p. 23.

It is difficult to assess to what extent this hesitant attitude has retarded economic development. In the past, this issue has received little attention because of the ability of the government to maintain a relatively high economic growth thanks to a large inflow of oil money and borrowed funds. But conditions have changed considerably and the structural weaknesses of the economy have become apparent immediately after the price of oil fell and the cost of external borrowing rapidly increased. Accordingly, the need for greater participation of the private sector in the country's economic development is more pressing than ever before.

To some extent, the government has indicated its willingness to facilitate a wider involvement of the private sector in the process of economic development. Various forms of deregulation have been introduced as mentioned earlier in this paper. However, much remains to be done as regards the implementation of these adjustment measures.

Certainly, it is not easy for the government to take a clear-cut position with respect to the role the private sector should play in the future. Some have mistaken an increasing role of the private sector for a lean towards capitalistic development. And the significant role of the external sector in Indonesia's economic development has also been criticized as a drive to a "lumpen development" from which, according to the "dependencia school," an economy which is integrated to the world economy, can not escape. In short, there is a criticism against greater participation of the private sector in the country's economic management. This criticism has occasionally forced the government to make compromise which impedes the full deployment of the private sector or a certain segment thereof. To avoid such an unfavourable condition efforts should be made to strengthen the linkage between economic development and social development.

As income increases the nature of social relationship may change. The higher the average wage within an economy, the more pronounced will be the demand for qualitative changes in industrial relation. Participation, both direct and indirect, at different levels of company's management may turn out to be more interesting to labour organization than a further increase of pecuniary incentives. The history of industrial relations in developed countries shows that preferences may change fundamentally as income rises. This issue may appear to be of little relevance in view of the present stage of Indonesia's economic development. The point, however, is that social peace is a *conditio sine qua non* of economic development. No matter what potential a country has at its disposal, its transformation into a real economic strength will be impossible without a genuine social peace.

In the past years, tremendous efforts have been made by the government to promote social peace within the country. Through the establishment of mini-

mum and maximum wages, differentiated according to the costs of living in various regions, the government has tried to prevent a widening gap between different income groups. Consumption of various products, the so-called essential goods such as rice, flour, kerosene, and fertilizer is subsidized. And progress has also been made in low-cost housing, village development, educational program, social insurance and other fields of social development. Indeed, a big slice of the government expenditure has been devoted to the development of projects which, at least partially, are socially motivated. Yet the efficiency of this social network is low. Some of the measures have failed to bring about the intended social effects, benefitting instead the higher-income groups. Hence, adjustment has to be made to improve this efficiency and to strengthen the link between social programs and economic development. Use should be made of the possibility of the social system to perform its recycling function within an economy.

Indonesia's future development depends to a large extent on the development of the world economy which in turn is heavily dependent on the development in the industrial countries. We have an interest in a free access to the markets of these countries, which in turn are dependent on access to our resources. The bitter experience in the last three years has proved how strong this interrelationship has been. Unfortunately, the recent history of the world economy is full of events which by no means are conducive to a development strategy which assumes to openness of the world economy. Since the seventies, the protectionist trade policy of major industrial countries has tended to hit developing countries badly. And the prospect for immediate change is yet not in sight. Efforts have, therefore, to be made first to arrest protectionism at its existing level and then proceed to its liberalization. If this adjustment, together with those mentioned earlier, can take place, Indonesia can enter the next decades with better economic achievements than the present situation may warrant.

#### Appendix

##### ALTERNATIVE PROJECTION ON THE GROWTH RATE OF INDONESIA'S PER CAPITA GDP, IN PER CENT

	Lower Variant	Higher Variant	Years Covered
Sumitro (1978)	4.47	5.01	1973-2000
LPEM (1980)	3.90	4.90	1978-1985
LPEM (1980)	3.60	5.10	1985-2000
Strout (1979)	3.10	3.50	2000-2025
Strout (1979)	2.00	2.30	2025-2050
World Bank (1979)	—4.54—		1973-1990
Ridker and Watson (1980)	—5.99—		1980-1985
Ridker and Watson (1980)	—5.11—		1985-2000
Ridker and Watson (1980)	—3.66—		2000-2025

## INDONESIA

### COAL, PEAT INDUSTRY; POTENTIALS, PROSPECTS VIEWED

Jakarta THE INDONESIAN QUARTERLY in English Vol XII No 1, Jan 84 pp 49-61

[Article by John A. Katili: "Coal and Peat in Indonesia: Potentials and Prospects"]

[Text] HISTORY

Unlike natural gas, the coal industry in Indonesia dates back to 1892 with the commencement of the mining of the Ombilin coal in Central Sumatra. A quarter of a century later Bukit Asam Mine in South Sumatra was developed. The Ombilin mine reached its peak production of 665,000 tons in 1931 while Bukit Asam attained its highest production of 863,706 tons in 1941.

The newly independent Republic of Indonesia started the rehabilitation of the coal mines after hostilities ceased in 1950, but encountered numerous problems mainly due to competition from cheap oil.

The re-emergence of coal as an important source of energy in Indonesia dates back to 1976 when a Presidential Decree was issued to make maximum use of coal for new thermal power plants and other heat generating industries. During the same year the World Bank was asked to assist the country in the rehabilitation and expansion of the Bukit Asam Coal Mines.

Between 1975-1978 an important discovery of bituminous coal was made by Shell in South Sumatra amounting to about 15 billion tons. Since 1979 the Government has been engaged in the rehabilitation of the two important mines, namely Bukit Asam and Ombilin, and in negotiations with foreign contractors to develop coal in eastern Kalimantan.

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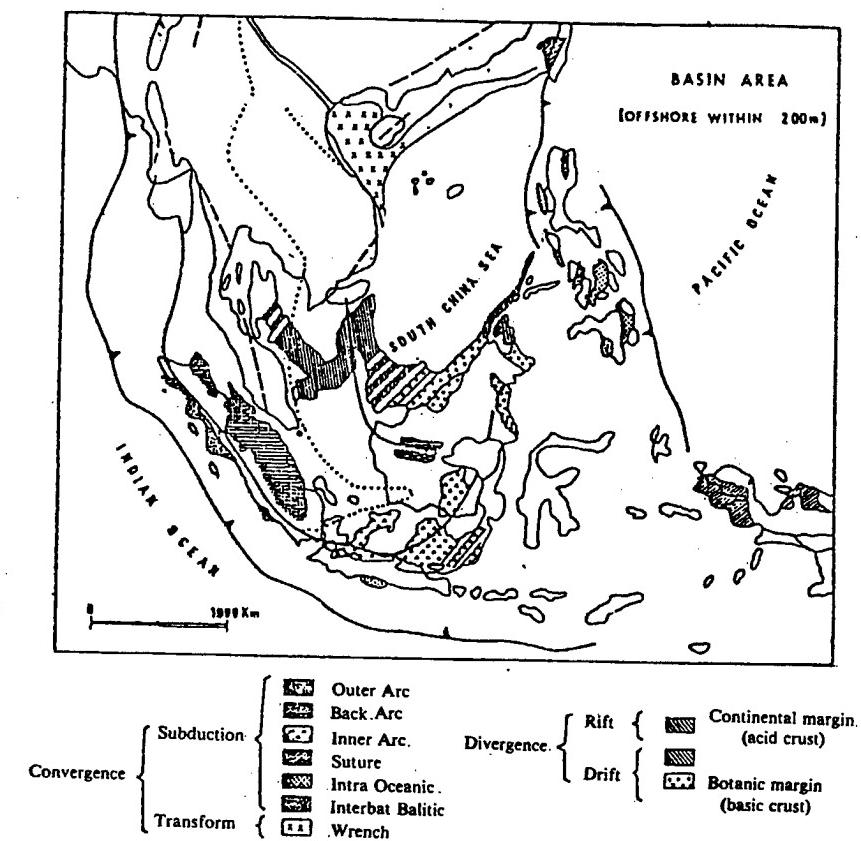
Paper presented at the *Indo Energy 1983 Conference*, in Jakarta, 21-23 June 1983. Prof. J.A. Katili is Director General of General Mining, Department of Mining and Energy.

## COAL POTENTIALS AND PROSPECTS

Broadly speaking Southeast Asia can be divided into three main areas; two of continental crustal affinities (Sundaland-Indochina, and New Guinea) and the oceanic arc systems (Phillipines and Sulawesi). Southeast Asia has been at the core of an accreting subduction system since at least the late Paleozoic. The subduction zones have moved systematically away from the continents towards the ocean; growth however, has been asymmetric to the north and northeast.

Figure 1

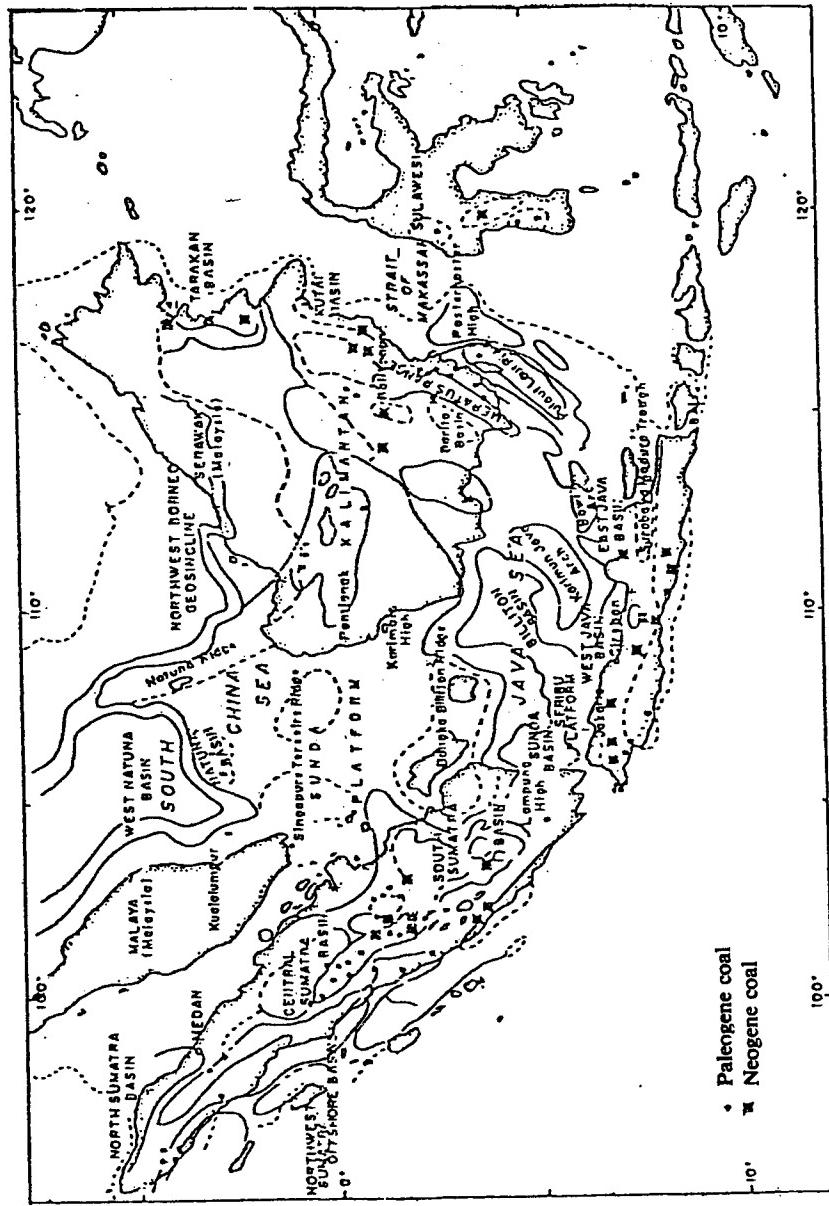
### TERTIARY BASINS IN SOUTHEAST ASIA



A reorganization of the subduction system occurred in Late Cretaceous - Early Tertiary time. During this interval active subduction ceased, namely in Northwest Kalimantan and the Natuna Arc. In the southeast, subduction

Figure 2

COAL DEPOSITS IN WESTERN INDONESIA



(Koesoemadinata et al. 1978)

migrated from East to Southeast Kalimantan to its present position south of Java. This change in configuration of the subduction systems is considered to be very important in relation to the tectonic environment of the present oil and coal basins (Figure 1).

The Tertiary basin of Sumatra has been classified as a back arc basin, the Java and Southeast Kalimantan basins have been included in inner arc basins while the northwest Baram Delta and Kutei Basin has been included in oceanic margin basins. The West Irian basins have been classified as suture basins. In western Indonesia the coal basins are subdivided according to the tectonic development into Paleogene intramontane basins and into Neogene back-deep basins which are partially superimposed on Paleogene intramontane basins (Figure 2).

Coal deposits are found in the non-marine sediments of the premarine transgression in the intramontane basins. In the Neogene back deep basins and in the Neogene deltaic basins of Eastern Kalimantan they are found in the regressive sequence. Prospective reserves with thick, flat seams of good quality steam coal are repeatedly available in vast quantities in the southeastern region of East Kalimantan.

Coal in the intramontane basins, although better ameliorated, is limited in extent (Ombilin basin - Central Sumatra) while that in the regressive sequence tends to be extensively distributed. However the coal is still young and lignitic in nature unless ameliorated locally by andesitic intrusion (Bukit Asam - South Sumatra).

The Tertiary basins of Irian Jaya are characterized by clastic deposition which took place only in the regressive phase. Coal deposits are almost exclusively in the Pliocene regressive sequence, especially in the Salawati and Bintuni basins. The results of the present investigations do not yet warrant a precise calculation of our coal reserves.

A conservative estimate of the Indonesian coal reserves is depicted in Table 1.

Coal production in the past years of 1979, 1980, 1981 has shown a steady though modest increase. Production in 1980 amounted to 303,989 tons, up by 9.12 per cent compared to the 1979 production of 278,588 tons. In 1981 production was 367,200 tons while in 1982 the figure reached 456,500 tons or 24.3 per cent above the 1981 production.

**Table 1**

**TOTAL COAL RESERVES ESTIMATES (in metric tons)**

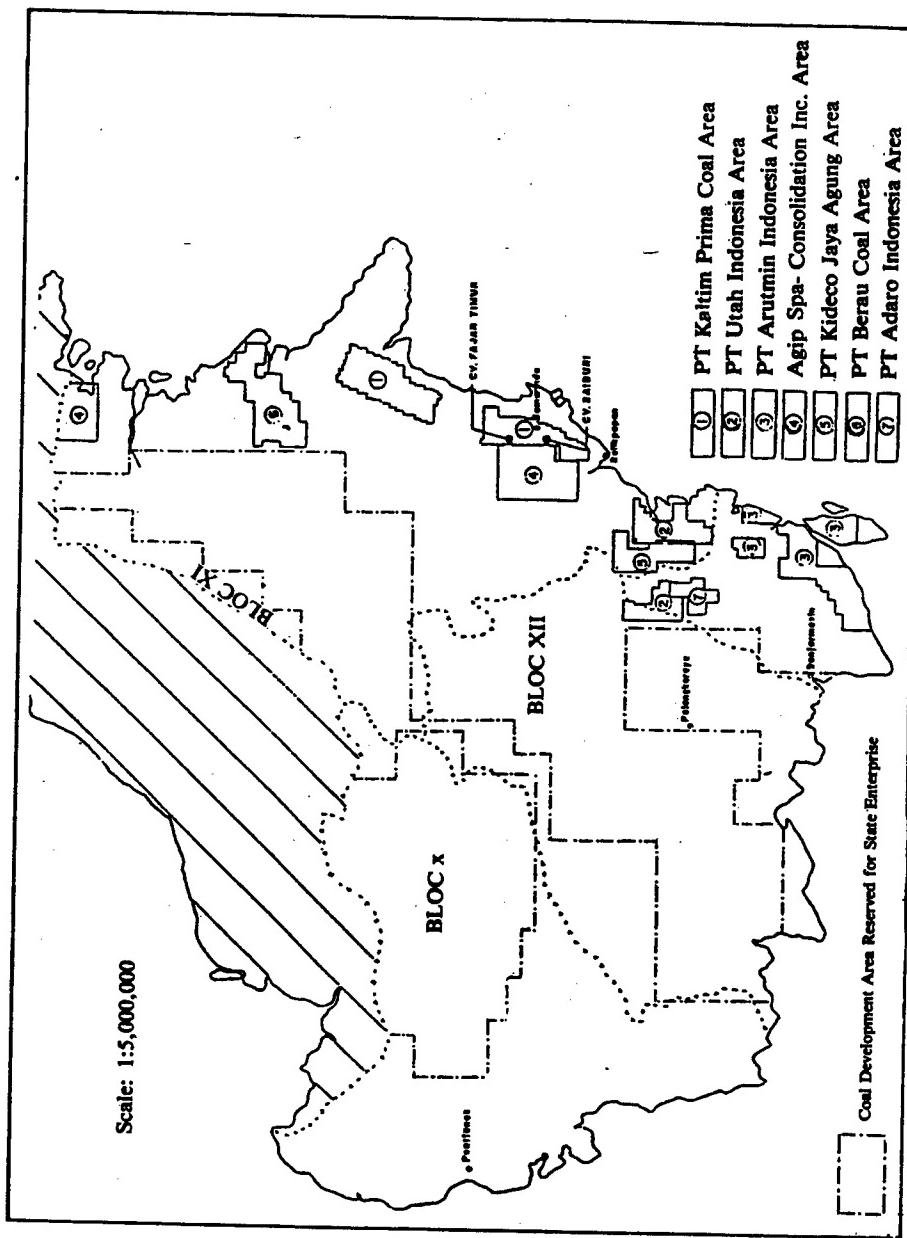
Region	Hard Coal	Lignite
1. West and Central Sumatra	200,000,000 to 300,000,000	?
2. South Sumatra (Bukit Asam, Bangko, Bukit Kandi, etc.)	200,000,000 to 250,000,000	In excess of 15,000,000,000
3. Northeastern Kalimantan	100,000,000 to 150,000,000	?
4. East Kalimantan	100,000,000 to 150,000,000	500,000,000
5. Southern Kalimantan (incl. Pulau Laut)	150,000,000	Considerable

Except for the coal of anthrasitic grade, which is exported to Malaysia, Singapore, Thailand and Taiwan, most of the coal produced is consumed domestically. Export of coal in the years 1979, 1980 and 1981 was respectively 51,678 tons, 100,218 tons and 126,388 tons, an increase of respectively 93.92 per cent and 26.06 per cent.

In line with the Government's Energy Policy to develop the potential coal reserves to their optimum in Indonesia, a limited international tender was held in 1978 inviting companies to explore and eventually develop 8 blocks in East- and South-Kalimantan with coal potentials, on the basis of production sharing contract with the State Coal Mining Company (Figure 3). The ingredients of the production sharing contract on coal can be seen in Appendix 1. Under this arrangement seven contractors were granted the rights to explore and exploit the coal resources in separate areas of East- and South-Kalimantan.

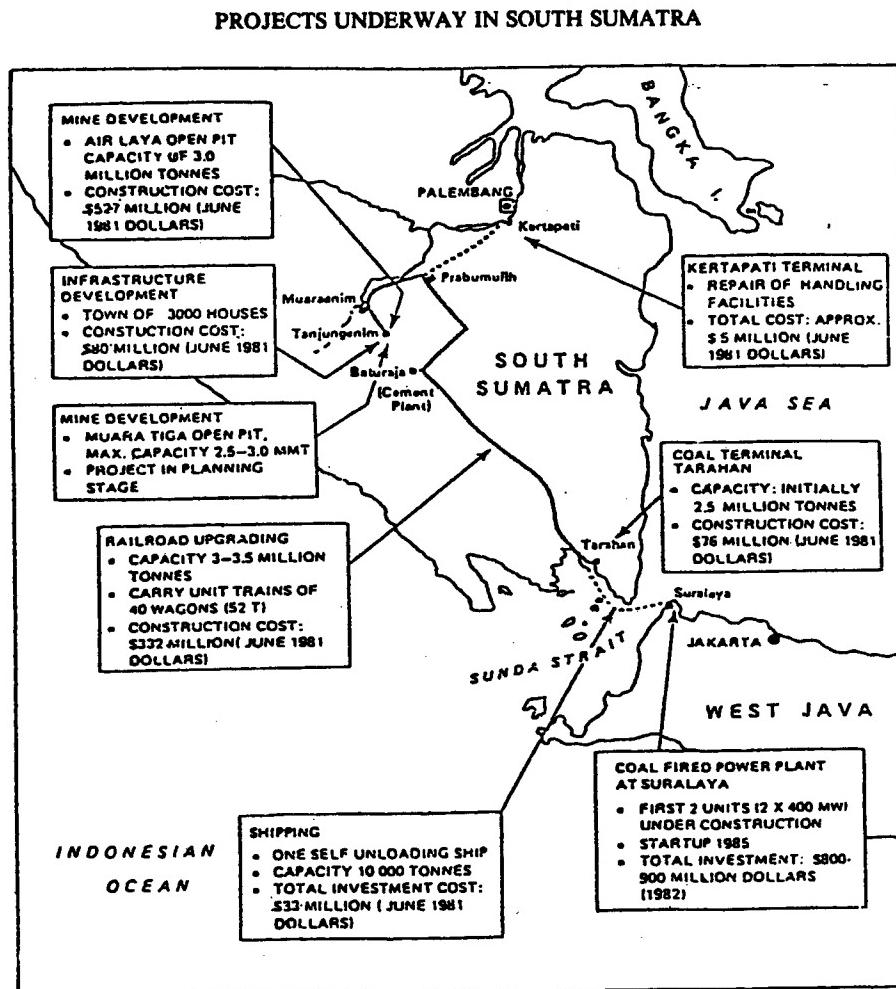
Meanwhile within the years of 1979, 1980 and 1981, under the Government's coal inventory program, the Directorate of Mineral Resources also conducted detailed exploration schemes including drilling activities in the areas of South Sumatra, West Sumatra and East Kalimantan. Of importance is the formation of the Bukit Asam State Coal Mining Company in early 1981. The establishment called for the separate management of the Bukit Asam South Sumatra coal mining operation from the State Coal Mining Company, to guarantee the long-term coal sale's supply commitment from the Bukit Asam South Sumatra coal area to the Suralaya, West Java, Thermal Power Plant.

**Figure 3**  
CONTRACTOR'S WORKING AREA OF PN TAMBANG BATUBARA  
IN KALIMANTAN



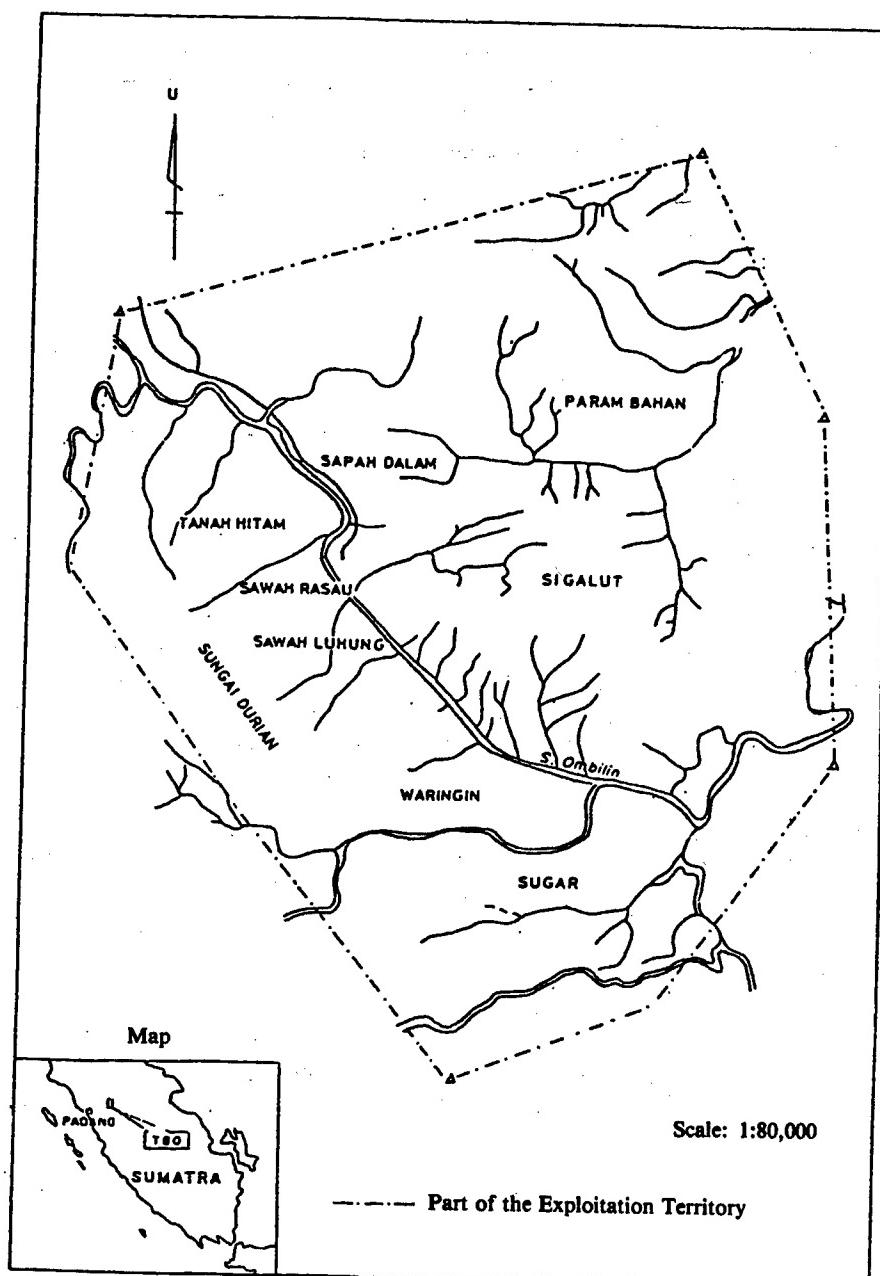
The supply covers an initial amount of 2.5 million ton annual coal delivery for the power generation of about 2 x 400 megawatt (Figure 4).

Figure 4



The Bukit Asam mine project is divided into several subprojects, of which the most important are: (1) Bukit Asam mine subproject; (2) townsitc sub-project; (3) railway transportation subproject; (4) Tarahan Terminal sub-project; (5) Kertapati terminal subproject; and (6) sea transporation sub-project.

Figure 5



A crash program to accelerate the mining of the Ombilin coal was set up and comprises three stages. The first stage has the objective to increase production to 750,000 tons in 1985, while stages II and III will be concerned with the opening of underground mines in Waringin and new mines in Sugar and Sigalut (Figure 5). It is anticipated that by the year 1990, production in these mines will reach 1.5 million tons of coal annually.

## PEAT POTENTIALS AND PROSPECTS

Indonesia is estimated to have the fourth largest peat reserve in the world. An estimate suggests that peatlands cover about 17 million ha (Figure 6) and are distributed over the islands as follows:

Islands	Areas in hectares
Java	25,000
Sumatra	6,781,000
Kalimantan	6,469,000
Irian Jaya	3,625,000
	16,900,000

All these figures need some additional qualification if an estimate of the genuine peat soils, containing more than 65 per cent organic matter down to one meter or more, is to be made. Indonesian peat resources are largely tropical lowland peats which are different from the upland peats of the temperate latitudes.

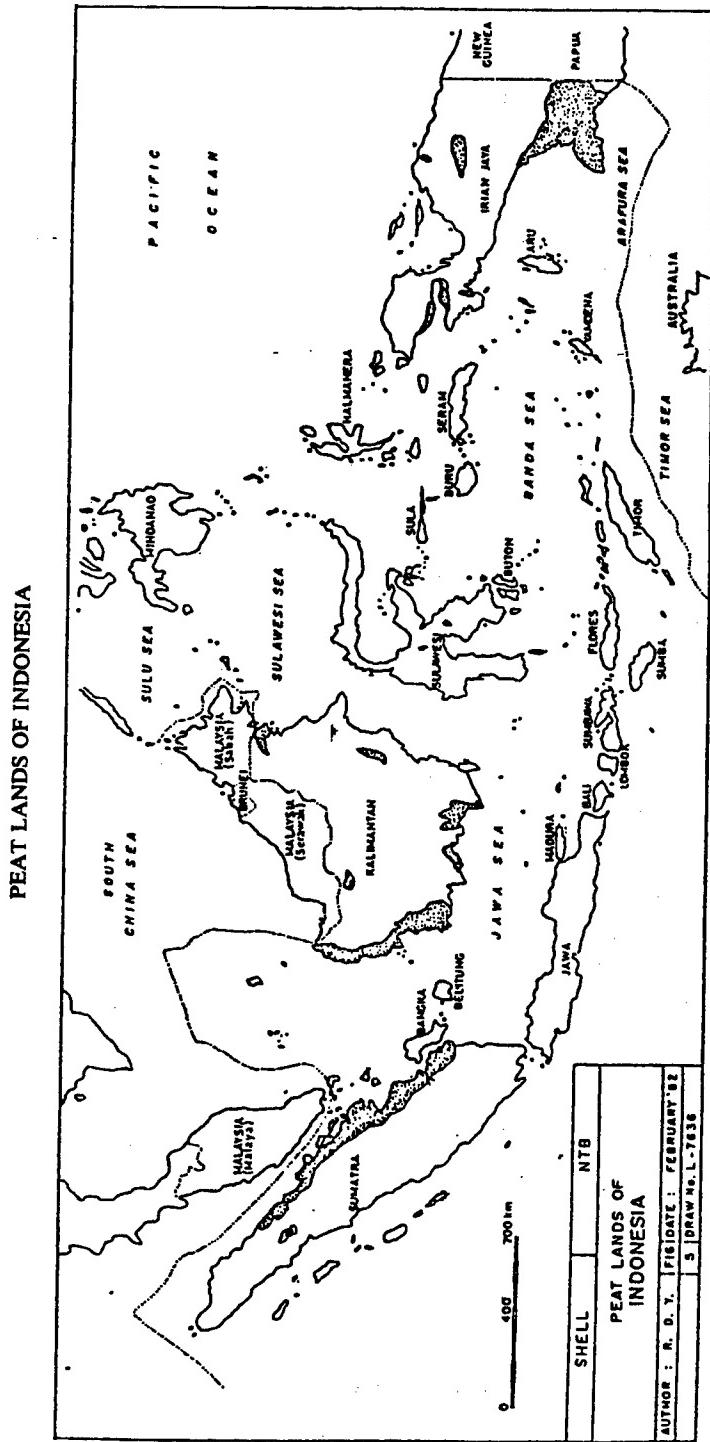
All the forms of energy being developed in Indonesia to date rely on high capital, high technology, low labour input industries. Peat can be developed this way, but it can also be developed on a small scale basis at moderate cost, employing low technology industries, which have high labour requirements.

In the past there has been a tendency to think of the peatlands of Indonesia as unusable and they are generally avoided in the Indonesian transmigration schemes. If the peat could be harvested from these areas, a valuable energy source would be developed and it is possible that the reclaimed land could be used for agricultural purposes by transmigrants. To date little attention has been directed to the exploitation of these large peat reserves and associated land reclamation schemes.

The main advantages of peat-based fuel compared with oil, gas and coal are:

- Peat winning is a very labour intensive task and therefore creates many new jobs (e.g. in Ireland where production is fully mechanized still 65 per cent of production costs are labour costs);

Figure 6



- As peat production can be done in a very simple manner, investment costs are low, as expensive and sophisticated equipment is not essential;
- After removing peat the remaining waste land can be reclaimed for agricultural and/or forestry purposes;
- If peat is substituted for oil, gas or coal, foreign exchange can be earned by selling the freed up fuels in world markets.

In Indonesia peatland is mainly located in East Sumatra and South Kalimantan. However, the demand for cheap fuel (as a substitute for fuel-wood and kerosene) is mainly on Java, where the highest population concentration occurs. As peat is a very bulky material with low volume weight, thus restricting the economic transport distance, and as in Indonesia inter island transportation costs are high, peat should initially be developed locally and preferentially be used as source fuel for electricity generation.

There are, however, also simple processes available for upgrading raw peat into briquettes, pellets or charcoal and thereby extending the economic transport distance considerably. In this form peat could possibly be transported to Java and be competitive with other fuels.

Although there is already considerable know-how available on peat production and upgrading in the northern temperature latitude hardly any work has been done on lowland peat in tropical countries. As tropical peatland is different in consistency, climatical conditions, drainageability etc. special know-how has to be developed before starting any large scale peat production scheme.

A masterplan for creating the necessary know-how to develop peat for energy purposes in Indonesia could be done in three main stages namely: (1) selection of suitable peat areas; (2) comprehensive survey of selected areas; and (3) establishing a pilot scheme in one of the selected areas.

## CONCLUSION

The geological environment suggests that Indonesia still harbours vast undiscovered coal deposits. Large portions of North Sumatra, western Kalimantan and Irian Jaya have not yet been explored in detail. More detailed investigations in the deeper part of the Kalimantan and West Irian basins might reveal the occurrence of coking coal in these regions.

The Bukit Asam Coal Company will develop its mine in South Sumatra to a production of 750,000 tons in 1985 which may be increased to 3,500,000 tons

by 1990. This development is necessary to meet the demand for coal from the electric power sector especially in the densely populated area of Java. It is also expected that by 1990, the production of coal in Kalimantan will reach 10,000,000 tons annually so that by that time domestic consumption will be fully supplied by the Sumatra and Kalimantan coal mines.

Problems to be encountered are numerous. Large investment, high operation cost, low ROR, lack of experienced coal resources scientists and engineers, coal handling and coal transportation specialists, coal marketing experts, are constraints that could hamper or slow down the large scale coal development in Indonesia.

A complicated infrastructure characterizes most of the large coal development schemes. The rapid development of coal requires various big infrastructures such as railways, terminals, and harbours. Until now the development of infrastructure associated with mining lies within the responsibility of the companies themselves. Questions have been raised as to whether the Government could in some way assist in the development of the infrastructure in which Government participation could be taken up as shares in the coal company.

Most coal deposits in Indonesia occur outside Java, which is the biggest consumer of energy. Power generated in the South Sumatra coal fields could be transmitted to Java through submarine cables. However, this is expensive and certain constraints must be taken into consideration. It is therefore necessary to study the land and sea transportation of coal very carefully in order to move coal economically from the outer islands to the densely populated areas of Java.

It is anticipated that between 1985 and 1987 coal to be consumed by the electricity generating plants will increase in such a way that domestic supply could not meet the rising demands. This is not due to the scarcity of coal as a resource but to a possible delayed schedule in completing the coal chain from its source in Sumatra to the users in Java. After 1987 a dramatic rise in coal production is expected so that by that time Indonesia will be self sufficient in supplying coal to its power generating plant.

Lack of coordination between different government and private agencies and unnecessary bureaucracy could pose main problems in carrying out the "coal chain" process such as the Bukit Asam-Suralaya project.

Indonesia is estimated to have the fourth largest peat reserves in the world. A plan to create the necessary know-how for developing peat as a source of energy is being developed which will lead to the selection of suitable peat areas and the establishment of a pilot scheme in one of the selected areas.

**Appendix 1**

**MAJOR POINTS OF TERMS AND CONDITIONS  
(for production sharing contract in coal)**

1. Unconditional guaranteed share of coal in kind 13.5 per cent annual production in favour of the Government of Indonesia.
2. The Contractor has to form Indonesian Limited Liabilities (PT) prior to the commencement of the Production period.
3. Corporated income tax 35 per cent during the first ten years of the Production Period, and 45 per cent thereafter, withholding tax on interest, royalty and dividend 50 per cent of prevailing rate.
4. Annual lump-sum payment for regional development contribution shall be US\$100,000.
5. Ownership of plant and equipment shall be the property of the Government when landed at the Indonesian port or purchased locally.
6. At the request of the State Coal Enterprise the Contractor shall market all parts of its coal within Indonesia as required by the Enterprise based on the terms and conditions as mutually agreed, provided that it may do so without impairing any of Contractor's outstanding obligations.
7. The Contractor shall offer its shares for sale or issue shares to the Government of Indonesia, Indonesian nationals and Indonesian companies controlled by indigenous people.
8. Import duties for equipment will be exempted.
9. Investment allowance is 20 per cent and claimed in four equal instalments of 5 per cent each year, deducted directly from the taxable income.

CSO: 4200/766

KAMPUCHEA

PRK-SRV RESPONSE TO INCREASED KHMER ROUGE THREAT

Frankfurt/Main FRANKFURTER ALLGEMEINE in German 8 May 84 p 10

[Article by Erhard Haubold: "Building Fences in Kampuchea"]

[Text] Phnom Penh, in May—"They are repeating our mistakes and those of the French," American military men in Bangkok are saying with a certain amount of malicious joy: all over Kampuchea the Vietnamese are putting up fences. Not just simple ones of the kind designed to protect bridges from partisan attacks which can be manned by a single guard and have been in use for several years. Now they are building massive palisades of two meter-high young trees which are rammed into the ground in double rows spaced one or one-and-one-half meters apart. These fences are not only being built in the particularly threatened western part of the country close to the Thai border where a 30-kilometer fence already exists. Even villages close to Phnom Penh and small towns are now being ringed by a wooden wall complete with double gates which can be locked at night. In large provincial capitals such as Kampong Chhnang—only 2½ hours north of Phnom Penh by car—fences are being built to protect "strategic objects" such as hospitals, medical supply depots and fuel storage tanks right in the center of town. "We will build a great many more fences," Nuth Sem, a member of provincial committee says.

"It is better to take precautions than to have to mend—that is what the revolutionary slogan says," our "interpreter" keeps telling us after we have had this type of conversation. But those are just empty words. A mere 60 kilometers north of Phnom Penh, along Highway 5, we counted more than 30 solidly built houses, not just straw huts, that had been destroyed. Some 100 "Pol Pot partisans" or Khmer Rouge, we are told, came under the cover of darkness, at about 2 am. They did a bit of looting and kept asking about the "Youns" or Vietnamese they meant to kill and then set the houses on fire.

That is quite a guerilla operation considering the fact that the nearest possible hiding place in the vicinity of Phnom Oral mountain is 40 kilometers away. To move that many partisans through the countryside for such distances will not work without support from the villages and without supplies of rice and good planning. Almost simultaneously, the village of Prey Khmer about 20 kilometers further north came under attack with the

aim of cutting off potential Vietnamese supplies to Kampong Chhnang. Where were the Vietnamese, the soldiers of the national army and the militia? Even the member of the provincial committee can do no better than to admit that the security forces "failed to do their job."

But Nuth Sem goes on to admit—much to the chagrin of our "interpreter"—that attacks of this kind had not taken place since the "liberation" by Vietnam in 1978-1979 and that some of the Khmer Rouge were known to the villagers. In addition to Kompong Tralach and Prey Khmer, there are a great many regions in the Kampuchean interior where the gong sounds more and more often by night to announce the threat of a partisan attack. But these are regions foreigners never get to see due to the far-reaching travel restrictions. The facts which are officially confirmed are bad enough. In the western provincial city of Battambang, a jute factory was attacked and the storage facilities were set on fire. Nearby, in Siem Reap, the market and a village went up in flames. In Kompong Thom and elsewhere, the Khmer Rouge set the prisoners free from jail. In no case has there been a report of the "security forces" offering serious resistance or pursuing the attackers. And as for the long-suffering, experienced population—it issues no warnings and divulges no information—and survives. Is this simply evidence of pragmatism or could it be that Pol Pot's misdeeds are slowly receding into the background or could it be that more and more Kampucheans—most of whom are nationalists—tend to think along the lines of Sihanouk's "underground representative" whom we met in Phnom Penh and who simply says: "Pol Pot is Kampuchea, too."?

Why it took the guerillas 5 years to move the struggle against the Vietnamese soldiers from the Thai border area into the interior of Kampuchea is a matter for speculation. What we do know is that the Khmer Rouge at least—numbering 25,000 fighters and as such the strongest of the three partisan units—are superbly equipped by now—with the help of the Chinese. They speak the language; they are motivated; they operate as Khmer among the Khmer and are said to have less problems with recruitment. After all, for an unemployed peasant boy it is probably not unattractive to do duty in a partisan camp—well supplied with food from the Thai side of the border—the more so, if he hates the Vietnamese.

Even Soviet diplomats in Phnom Penh admit that the Khmer Rouge have "more and better weapons" and "achieve greater impact" with their attacks, hitting the government where it hurts most: in industry, in the infrastructure and in economic development. Without a doubt, heavy Chinese pressure has gotten the Khmer Rouge to move. Beijing wanted to tell the world that Vietnam had by no means assumed full charge of Kampuchea. Just the same, there appears to have been a major controversy about strategy. China was calling for a large-scale attack; but the guerillas were in favor of conducting the more typical destabilizing partisan operations. For now, the guerillas seem to have prevailed.

Khieu Kanharith, a young though important man in Phnom Penh's party hierarchy and editor-in-chief of the party newspaper KAMPUCHEA, traces the striking sloppiness (or incompetence) of the uniformed forces to a decision of the central committee which stated that most of the security functions were to be assumed by the Kampuchean national army with the aim of speeding up the withdrawal of the "friendly" Vietnamese troops. It was a way of paying tuition for the training of the Khmer soldiers. In addition, the government (in a circular by the ministerial council of 19 March 1984) promised to accord humane treatment to defectors and to extend financial assistance to help re-integrate them. This program is said to have registered some initial successes already; most of the freed prisoners did not run away and some high-ranking Khmer Rouge functionaries and officers have joined the government side in Phnom Penh. The others will be caught—among other things with the help of the fences which prevent the sympathizers in the villages from supplying the guerillas with rice. As of now, they could supply them only with as much rice as they could fit into two trouser pockets. Under the circumstances, the partisans would have to mount attacks whenever they ran out of food.

Are the soldiers of the national army prepared for such an eventuality ? The Khmer army [Khieu Kanharith says] has improved. According to the Soviets, even the Vietnamese say it is "pretty good." On the last national day in Phnom Penh, Khmer soldiers drove three Soviet T-54's in the parade; the distance between them was no more than 70 centimeters. But such skills will not do the national army much good in the jungle. Members of the Khmer Popular Liberation Front (Son Sann) have said—and there is no reason to doubt them—that there are never any fire fights when they encounter Phnom Penh's units. They exchange cigarettes and above all information about the location of the nearest Vietnamese unit—being Khmers all. More than any other, it is this aspect which ought to worry the Vietnamese. There are said to be many government soldiers who keep in touch with the partisans. After all, one never knows. In addition, there are said to be former top officials and experienced engineers hiding out in some village or other. After all, one never knows how long the present Phnom Penh government will stay in power. Haven't there been two major political earthquakes in less than 10 years?

Most of the trained officers of the Sihanouk and Lon Nol eras have joined Son Sann's partisans or have gone abroad. In any event, they have not joined Phnom Penh's armed forces which are not as professional as they might be because the Vietnamese instructors do not trust them. If for no other reason, Hanoi will once more have to tighten the reins in Kampuchea. There will be "purges" and perhaps more refugees; at any rate, there will be less sympathy for Vietnam. The problem no longer is the roads and houses being destroyed by the guerillas but the general uncertainty as well as the wait-and-see attitude that is a consequence of it.

At the top of the Phnom Penh government one meets people who are relaxed; but one merely needs to go a little lower, to the middle echelons, to run into nervousness. There are some who ask what will happen. Neither Sihanouk, nor Lon Nol were able to hold on to the country and Pol Pot was driven to the border in less than a month. The future is no longer certain and that is why people keep all their options open as the rumors fly thick and fast. Some are digging small trenches around their house; others are trying to make their own crossbow. Careful note is taken of the report that one minister takes eight soldiers along on trips to the provinces to guard him as well as of the news item which states that a banquet for a high-ranking UN official which was to take place on a river boat had to be postponed on a day's notice.

One man we talked to says that the powers that be in Kampuchea, even including Sihanouk, had always had to fear for their safety and when we ask the party secretary of a large state organization in Phnom Penh what he expects of the future he points to the ground with both hands. Those are bad signs for the Vietnamese. They need time in order to build up Phnom Penh's administration, army and communist party; but the guerillas do not let them. By now, after all, they have succeeded in raising the question of the survivability of the Heng Samrin government installed by Hanoi.

The government still is in control of most of the country and above all of the harvest. In at least this sense it is too early to refer to Kampuchea as another Vietnam, as American observers have done. But there are historical parallels. These days, the partisans are escaping in the direction of Thailand as the Vietcong once disappeared in Laos and Kampuchea. The Vietnamese today are in the same boat the Americans were in then: they can destroy bases and "clean out" villages but they cannot get at the guerilla fighters themselves. They have lost part of their decision capability. In the space of 5 years they have not succeeded in subduing the partisan threat. The opposite in fact is true; the threat is continuing to grow.

At the same time, the Chinese have been taking a tougher stand. The PRC is making it clear on two "fronts" that it has no intention of acquiescing to Hanoi's "hegemony": along the northern frontier of Vietnam and in the partisan camps. Will Hanoi be more prone to compromise on the Kampuchean issue in the future? Since it need not account to public opinion at home, Vietnam can live with low-level guerilla activity for some time—far longer in fact than the pluralistic American society for example, working under its democratic "handicap."

Time will also tell whether the enthusiasm of the guerillas which have only been in existence for 6 months will continue to hold up. But there can be no doubt about the fact that Vietnam is headed for more trouble in neighboring Kampuchea. Although it is generally estimated in the West

that Vietnamese troop strength stands at 160,000 to 180,000, it appears that the actual number is closer to some 140,000 of whom 70,000 may be classified as belonging to fighting units. That is not too strong a force to oppose guerilla units numbering some 30,000 men. For another thing, logistics in the western border area are in a bad shape. In that region, the partisans maintain their ammunition and rocket stores a few hundred meters away on Thai soil; ambulances are constantly on their way to the hospital at Khao-I-Dang where the wounded are treated by foreign doctors and where there is no shortage of medical supplies. The Vietnamese, for their part, are sent out by their units for 10 days or more at a time. They can eat as much rice as they can carry with them; the number of shells they received have been counted and as for supplies in between—there are none. If a man contracts malaria, he must wait until he is relieved. Vietnam could face a long and hard partisan war in Kampuchea.

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CSO: 3620/294

COMMENTARY ON TUNKU ABDUL RAHMAN'S ADVICE ON RACIAL HARMONY

Selangor KIN KWOK DAILY NEWS in Chinese 19 Feb 84 p 2

[Commentary]

[Text] Malaysia's founding father, former prime minister Tunku Abdul Rahman, once stressed that a friendly relationship and mutual understanding among all the people is absolutely necessary to safeguard our national security and stability.

Furthermore, our founding father pointed out that racial conflicts will not benefit any side, because a divided country simply cannot guarantee the people happy lives.

His advice was especially directed to Anwar Ibrahim, leader of UMNO [United Malays National Organization] Youth, who called on the tunku. To Anwar, it carries deep significance; to the nation, it serves as alert, yet sincere advice.

Anwar Ibrahim's opinions have invariably been extreme, particularly recently as the UMNO Youth election fast approaches. His pronouncements and other expressions have always tended to evoke feelings of disgust and dissatisfaction among the other nationalities. Anwar's style is wrong, viewed from any angle or station.

The views brought up by Anwar have apparently become government policy, which cannot be revised or bargained for. Take the question of our national culture policy, for example. Although no other national leaders have uttered any definitive word, Anwar has repeatedly affirmed that the national culture policy has been accepted by the people and that it brooks no further discussion. Now if the entire people have accepted it, why is it that some circles have brought up opposition to this policy? This indicates that Anwar's overbearing and arbitrary attitude is most disappointing and deplorable.

It is not that Anwar does not understand the structure of our society and the special characteristics of our country's it is because he is bent on ignoring these facts.

Yet, where will our country be led to, if we use the ostrich way of managing our affairs of state? A national leader should not only review our national history but also understand the history of other countries, instead of merely one social stratum.

Therefore, Tunku Rahman's word to Anwar is full of significance. Only the tunku really appreciates how difficult it is to reconstruct a nation and fully understands that racial harmony is essential for safeguarding our national security and stability as time passes. At the same time, we must accept the unique fact that ours is a multiracial and multi-religious nation.

If, unfortunately, disturbances should break out in our country, it is certain that they would bring disaster to all sides, that the country would be split wide open and that the people would not be able to live calmly and happily.

Consequently, for the sake of our peace, safety and happiness, we hope that all influential leaders should recognize the peculiar social structure of our country and refrain from making statements or other expressions that would lead to other races' distrust or harm their prestige.

Our octogenarian founding father, Tunku Abdul Rahman, deserves to spend his remaining years in happiness, yet he still worries about the future security and stability of our country, and he often exhorts young national leaders to put the nation's interests above everything else and to treat all citizens equally without discrimination.

We must remember National Father Tunku Rahman's sincere advice, all the more so to those coming national leaders.

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DAP OFFICIAL CALLS FOR EXAMINATION OF DEVELOPMENT PLANS

Selangor SIN CHEW JIT POH MALAYSIA in Chinese 19 Feb 84 p 23

[Text] Tan Seng Giaw, director of the Democratic Action Party [DAP], Politburo, pointed out that the Mahathir-Musa government should thoroughly review its administrative and development plans, because we are already beset with a crisis.

This crisis can be confirmed from the midterm review of the Fourth Malaysia Plan. Evidence of this crisis is in the financial scandal.

He pointed out that the government must first and foremost admit the existence of administrative and development irregularities, before trying to resolve the crisis. Otherwise, all slogans and concepts would be in vain. The next step is for the government to make a thorough review of all administrative and development plans, discern the truth and get rid of the sources of trouble.

Recently, Mr Tan said, Dr Mahathir turned down the salary raise request submitted by telephone operators. No matter how good the prime minister's reasoning may be, it will not be acceptable to the telephone workers. This is because in this economically bleak period, the prime minister himself has spent at least M\$20.5 million to build his new official residence. How can Dr Mahathir give a satisfactory explanation to the people? Why must the people economize, but not the prime minister?

Tan Seng Giaw also urged the Mahathir-Musa government to review a number of current policy decisions and the extreme racism existing among government administrators.

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MALAYSIA

EDITORIAL CALLS FOR UPHOLDING OF TRUTH IN PARTY INFIGHTING

Selangor SIN CHEW JIT POH MALAYSIA in Chinese 20 Feb 84 p 2

[Editorial: "Party Infighting and the Truth"]

[Text] Our political areaan is becoming more and more exciting every year, as more people are concerned with politics and their political awareness has been widened and intensified. The emergence of such phenomena has another good point: The public can supervise political workers and quickly repudiate those who fail to serve the people earnestly or who falsely claim to act as "representatives of the people."

Of course, this does not mean that our politics is now moving on the right track. On the contrary, many areas still need to be reformed, and party infighting is a good case in point.

All our political parties have infighting, the difference being in the degree of intensity. In itself, party infighting is not a bad thing, because in democratic competition and after measuring the respective strengths of the participants, a better and more capable leadership will emerge. However, it is a pity that whenever a political party holds an election, an unhealthy rivalry among the contenders rears its ugly head. If we compare a Chinese party with a Malay party, it is not difficult to learn that the Malay party attaches greater importance to party solidarity, racial unity and the interests of the party and race. This is something worth emulating by all Chinese political parties.

We want to stress that it is not enough for members of a party to be on good terms with one another. We want a party to look after its working conditions, too, so that its plans can be smoothly carried to completion. However, we do not want to see a party whose members are on good terms with one another at the expense of principle.

The truth must still be sought in a gentle and amiable atmosphere. Feelings of being dissatisfied with the status quo often crop up easily in any political party or society, but reforming the status quo is not easy. By the same token, personal protests are relatively easy to handle, but collective ideological opposition is not easy to form. In particular, it is not easy for any individual to think about social or racial problems and to solve them all by himself.

Therefore, for a party or a nation to achieve progress, we must select the wise, employ the able and fully utilize talents not discriminate against those who hold different views, or use public office for private gain. History has shown us many such examples. Anything which does not conform to the truth will not last long, no matter the ways and means in grabbing a position.

In a party's election, the most important thing is the sacred ballot. Casting a vote can play its full role under the banner of democracy. To obtain the widest support of its members and play its role in the nation's political mainstream, a party must carry forward its democratic spirit and handle all party matters fair and square, so that the votes cast for it will carry the highest significance and hopes.

Although election days for a number of political parties are still far away, we have already read the attacks and counterattacks of contending factions in the papers. This is most unfortunate, especially because only very few of the contenders touched upon the future and interests of the party, nationality and country. What they are most interested in is, apparently, how to defeat their opponents by a surprise move.

Therefore, we can only say that sharply discerning truth from falsehood and firmly establishing a correct outlook constitute the best tailsman to seek the truth from party infighting.

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LIM KIT SIANG ON OPPOSING 'SINGLE LANGUAGE, SINGLE CULTURE' POLICY

Selangor SIN CHEW JIT POH MALAYSIA in Chinese 20 Feb 84 p 6

[Text] Lim Kit Siang, secretary general of the Democratic Action Party [DAP], today called on the people to waste no time in opposing the "single language, single culture" policy, because now is their last chance to do so.

He said that in the coming 3 years, his party will launch a movement to enable the public to understand the roots of their political, economic, educational and cultural problems. "Only through this method can these problems be radically overhauled."

He was speaking at the opening ceremony of a DAP leadership meeting for the year 1984 in Kuala Lumpur.

In his speech, Lim Kit Siang mentioned a dispute between Lim Hoang Seng, chairman of the Federation of School Teachers and Trustees Associations [FSTTA], and Anwar Ibrahim, minister of culture, youth and sports, concerning the national culture policy.

Lim said that the public must remember that our national culture policy is not the personal policy of the minister of culture, youth and sports or of the United Malays National Organization [UMNO]. It is the policy of all the member parties of the National Front, including the Malaysian Chinese Association [MCA], Malaysian People's Movement [GERAKAN] and Malaysian Indian Congress [MIC].

"Based on the principle of collective responsibility of the cabinet, Anwar Ibrahim is acting as the spokesman for the National Front member parties whenever he talks about out national culture policy in or outside of Parliament."

Lim said that participation of certain FSTTA leaders in the National Front resulted in the latter's victory at the April 1982 general elections. That was a tragic event indeed. At the time, other FSTTA leaders who did not openly participate in the National Front, including Lim Hoang Seng, also took part in the election campaign. The national culture issue is the bitter fruit planted by the FSTTA and the National Front at the April 1982 elections.

"During the said elections, some FSTTA leaders, including Lim Hoang Seng, surreptitiously called on voters to support the National Front. So how can we make the UMNO believe that the [Chinese] people oppose the national culture policy?"

Lim Kit Siang pointed out that in the Sarawak election, the DAP launched a movement opposing the "single language, single culture" policy, but the movement was sabotaged by FSTTA members who acted as GERAKAN leaders. However, in Peninsular Malaysia other FSTTA leaders continued to issue statements expressing their criticism of the national culture policy.

Lim held that FSTTA leaders, whether they are members of GERAKAN or not, must clarify their political standpoint. Otherwise, no matter how intensely they are affected by the national culture policy, they are no different from the MCA leaders.

Lim said: "The DAP maintains it is high time to protest the 'single language, single culture' policy because the next 3 years will be the last chance during which the Malaysians can indicate their opposition. If they do not speak their minds, their future will be rendered uncertain.

"The national culture policy is an example of how political leaders have succeeded in cheating the people with regard to the roots of their political, social, economic and educational problems and in diverting their attention away from these problems, such as the recent decision to reapportion electoral districts and the shift of political rights toward the UNMO and Malays.

"In reality, the redistricting of constituencies is a political decision jointly passed by members of Parliament representing the UMNO, MCA, GERAKAN and other National Front components. Therefore, our spearhead should be directed toward the MCA and GERAKAN cabinet members and members of Parliament. Yet the MCA and GERAKAN are cunningly trying to absolve themselves by shifting public attention toward some other issues.

"Other issues, such as the lion dance, the singboard and even major city blueprints, have also been fixed by the National Front government."

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MALAYSIA

EDITORIAL DISCUSSES MCA 'PHANTOM MEMBERS'

Selangor SIN CHEW JIT POH MALAYSIA in Chinese 22 Feb 84 p 2

[Editorial]

[Text] In a democratic country, the soundness and steady development of a political party depends, to a considerable degree, on whether its leaders can fully realize and understand democracy's true essence as well as carry forward and practice the democratic spirit. If it can fulfill these conditions, the party will steadily grow every time it holds an election in a democratic manner; otherwise it will split wider with every passing election until it eventually crumbles.

Therefore, the problem is not whether there are contenders vying for party positions, or whether the party can maintain a semblance of "harmony," but rather whether the democratic spirit can be fully carried forward and put into practice.

In reality, the most precious thing about the democratic system is that it completely negates the "parental system" and "what I say goes" practice. Only through encouragement of normal, intense debates within the party and through a democratic election can the truth come out brilliantly to strengthen the party members' political awareness, enhance their quality and help the party attain maturity. Take the U.S. two-party system: At the start of a presidential campaign, there are no less than half a dozen contenders, yet the two parties have not been split or weakened thereby.

It is unfortunate that a series of incidents has happened long before the June election of the Malaysian Chinese Association [MCA], which proves that to some leaders of this party, "democracy" remains a strange word. What was initially a common party election within a democratic system has turned into an ugly scandal, just because they are bent on winning the election by hook or by crook.

What is generally considered disgraceful is the question of "phantom members."

Judging by the most recent press reports, the evidence of phantom members has been verified. Although the number of these phantom members is still a puzzle, yet their existence is enough to prove that within this purely

Chinese-based political party, there are individuals who want to wrest "victory" through undemocratic, unlawful means.

Analyzing this problem further, we can feel that those persons who are resorting to this method are possibly scared of losing the election battle. But why the emergence of such a psychology? Of course, to the persons concerned, the coming MCA election not only has a bearing on their personal reputation and position but will also affect their political futures.

However, can any person who wishes to safeguard his personal reputation, position and political future be permitted to commit such shameless things in disregard of democratic principles?

If the answer is in the affirmative, then what is the significance of democracy? If the answer is negative, the parties concerned should promptly decide to adopt speedy action in the form of a meticulous investigation to ferret out the truth.

Naturally, a number of high-ranking people will be involved, once the truth is out. But the question of phantom members has become a serious shame to the MCA, and if the "evil members of the herd" lurking within the party are not driven out, the party cannot cleanse itself from this blot left on its election, and this would bring ill effects to its future development.

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PRESERVATION OF CHINESE-LANGUAGE SCHOOLS ONE OF MCA'S GOALS

Selangor KIN KWOK DAILY NEWS in Chinese 26 Feb 84 p 3

[Text] Datuk Neo Yee Pan, minister of housing and local government, said that preserving Chinese-language education and promoting the development of Chinese primary schools is one of the basic goals of the MCA's political struggle.

Arguing strongly on just grounds, the Malaysian Chinese Association [MCA] has effectively upheld that Chinese primary education is an integral part of our primary education system and that along with the other kinds of primary education, it enjoys legitimate developmental opportunities.

The housing minister stressed that the Chinese community, based on its traditional spirit of supporting education, should aid government efforts in furthering the development of Chinese primary education more effectively.

The minister was making a speech at the inauguration ceremony of the newly-constructed library, offices and gymnasium of Chung Hua No 3 Primary School at Merbok. The minister also announced an appropriation of M\$10,000 for the school's expansion plan.

Datuk Neo said that education continuously evolves with the times, and while nurturing talents through the process of education, we must not ignore the progressive trend of our times, nor should we neglect technological development. Only this way can we guarantee that the talents we produce will adjust themselves to the needs of our society, apply to the full what they have learned and make contributions to our society and country.

"Primary education is an important link of the entire educational system, and it is also an important foundation for the said system; therefore, it must be coordinated with the progress and requirements of the times," he said.

Minister Datuk Neo continued that education is becoming popular in our progressing Malaysian society, and every citizen has an opportunity to have free primary and secondary education.

Our Chinese community has always thought that educating their children is the most valuable investment, because well-educated talents are the most

effective catalysts for the progress of our society and civilization, for the enhancement of the people's standard of living and for the safeguarding of national strength.

Datuk Neo added that the MCA has always shown concern about Chinese-language education. During the emergency period in the 1940's, this political party, after helping Chinese inhabitants evacuate to new villages, wasted no time in establishing Chinese-language primary schools in various places for their children to benefit from mother-tongue education. Scores of years later today, these schools have won government appropriations to refurbish their facilities through the MCA's political strength.

We must constantly improve and expand our educational work. In this connection, the MCA has set up an Educational Personnel and Training Committee with the goal of studying, improving and expanding the new villages and the Chinese primary schools throughout the country.

The minister is convinced that with the cooperation of Chinese society, the MCA can play a bigger role in this matter. He appealed to the Chinese community to pool the wisdom and efforts of everyone to safeguard the continued development of Chinese primary education.

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MALAYSIA

EDITORIAL DISCUSSES TASKS OF CHINESE ASSOCIATIONS

Selangor SIN CHEW JIT POH MALAYSIA in Chinese 27 Feb 84 p 2

[Editorial]

[Text] The organization of Chinese society is quite different from that of other nationalities. One of its conspicuous characteristics is that it has numerous trade guilds, associations of fellow provincials and social clubs. In the past, these organizations catered to the welfare of their respective members only, but today they have expanded and set up federations or chambers of commerce or unions, thereby playing a bigger role in Chinese society.

In peaceful times, the role of these organizations is not very visible, but during an abnormal period, their power is beyond comparison.

To the Chinese community, the biggest event at the present moment is the quarrel between the Neo and Tan factions within the Malaysian Chinese Association [MCA], the intensity of which is unprecedented. If this controversy persists for a long time to come, "one of the tigers in this fight is likely to get hurt," and this would erode the political strength of the Chinese as a whole, which, in turn, would leave much to be desired for the country and people.

At this abnormal period, this paper has learned that leaders of principal Chinese organizations are going to persuade Datuk Lee San Choon, erstwhile MCA president, to intercede in the Neo-Tan dispute. No matter whether Datuk Lee is willing to extend his good offices or not, at least the leaders of Chinese organizations have indicated their stand that they do not want to see the further dissipation of Chinese strength.

In point of fact, infighting within the MCA or any other political party is not new but is something that must be faced by political workers. However, we would like to stress that a power struggle within a party should be based on principle and the interests of the people, instead of personal fame and fortune.

A few years ago, there was also a certain Chinese organization that intended to form a political party and take an active part in politics in order to defend the interests of the Chinese. But the plan was subsequently dropped,

although this does not mean that Chinese associations have become indifferent to political matters.

When the MCA infighting broke into the open, many people thought it was an exciting and amusing show. But gradually they have understood the serious implications of the power struggle, viewing it as a case "that saddens one's own people and gladdens the enemy." But how can concerned individuals let their opinions get across? And can individual opinions carry a meaningful force?

For instance, Chinese inhabitants in two new villages in Perak unanimously voted to economize when they hold a wedding party. This retrenchment movement was well received by the local people and even adopted by Chinese inhabitants in neighboring localities; today, more and more Chinese organizations are clamoring to follow suit. Another commendable collective effort was made by the Federation of School Teachers and Trustees Associations [FSTTA] in holding a uniform independent Chinese middle school exam, compiling textbooks for junior and senior high schools, setting up a reference and information hall, conducting systematic research on culture and education, forming a publication foundation, etc.

The predicament of the Chinese community today is a case of "it is easier to do a thing than to know the why and wherefore." For instance, in the past many people suggested that Chinese business companies should earmark a certain percentage of their annual profit to solve the financial problems faced by independent Chinese middle schools. But who was willing to do that? And how to carry it out? It turned out to be just empty talk. Recently the Federation of Livestock Enterprise Associations promoted a "sell a pig, donate a dollar" movement, and the result is promising.

Therefore, Chinese associations do possess power in Chinese society. Their leaders carry heavy burdens. Under the new political trend, they should make correct judgments and lead their compatriots toward the broad healthy road ahead for the happy and peaceful future of our country and the people.

9300  
CSO: 4205/55

HABEAS CORPUS RESTORATION GOAL OF NEW MUSLIM GROUP

East Burnham ARABIA: THE ISLAMIC WORLD REVIEW in English No 32, Apr 84 pp 28, 29

[Excerpts]

The "yellow confetti fever" – which hit Manila following the August 21 1983 assassination of opposition leader Benigno "Ninoy" Aquino Jr as a popular form of protest – has now been replaced by "election fever".

Except for a few hardliners like oppositionists Jose Kiokno and Lorenzo Tanada, both former senators, and Diosdado Macapagal, a former president, it looks like the majority of the 5 million Filipinos are all for participating in the May 14 parliamentary elections.

Despite the disunity among the opposition leaders, they all appear united in wanting Marcos ousted. Of late, mass rallies, marches and vigils have been held as a form of protest against the present regime. Among the participants in these rallies and marches is a newly formed Muslim group headed by former speaker Abul Khayer Alonto of the Cotabato region in Mindanao, where a 10-year jihad is raging. During these rallies the Muslim federal party has displayed placards that read: "Restore the writ of habeas corpus in Mindanao before the May 1984 elections."

It is the consensus among the Muslim federal party leaders like Alonto that restoring the privilege of the writ of habeas corpus in Muslim areas in Mindanao is necessary to ensure clean and honest elections. "How can candidates campaign freely with the fear of being

arrested by the military even without charges?" said Dr Alunan Gland, a Muslim historian. "In like manner, how can voters vote for an opposition candidate without fear?"

Almarim C Tillah, another upcoming Muslim leader, went a step further. "Insofar as I'm concerned," he said, "restoring the writ privilege is a condition for participation in the May 14 elections." Despite the lifting of martial law in 1980, the privilege of the writ of habeas corpus remains suspended only in Muslim Mindanao.

Meanwhile, charges have been made against Lanao del Norte governor Ali Dimaporo for allegedly establishing a dynasty of his own in the Muslim south. Dimaporo, according to his accusers, is seeing to it that only relatives of his get the election slots allocated for the Muslim region. Dimaporo has denied such allegations which he calls "unfounded". He explained that the decision of the local KBL party – and not his own – has always prevailed in selecting the local candidates.

CSO: 4200/759

PHILIPPINES

MISUARI INTERVIEWED ON CURRENT MNLF SITUATION, SUPPORT

East Burnham ARABIA: THE ISLAMIC WORLD REVIEW in English No 32, Apr 84 p 29

[Interview with Nur Misuari, leader of the Moro National Liberation Front; date, place not given]

[Text]  **How far are you from final victory?**  
Only Allah knows. We want our independence tomorrow. We hate war. We want peace for our children. A great part of our land has been liberated; the Phillipine army is afraid of coming to our liberated areas. We have formed a revolutionary government and administration in the liberated zones.

The Moro National Liberation Front has more than 13,000 regular fighters. The number of irregulars is far greater. We are continuing and expanding our struggle.

We are Muslims and Allah enforces on us an obligation. If our country, our people and our religion are under attack, we are obliged to defend them even at the cost of our lives. We have been fulfilling this duty.

**Why did you sign the Tripoli agreement?**  
The Tripoli agreement was between the Moro National Liberation Front and the government. It called for an autonomous Muslim state with 13 provinces equivalent to roughly over 60 per cent of our homeland.

The agreement was signed in 1976. Before signing it we had approached our Muslim brothers all over the world to support our struggle. In Kuala Lumpur we presented our documents and manifesto. We told them: "We are a nation, we are exploited, we need your support." Instead of giving us the support we had expected from our brothers, they asked us to accommodate the Marcos regime. They asked us to negotiate with the government. So a series of negotiations took place and the agreement was signed in 1976 and the ceasefire became effective.

But the Marcos regime started manipulating the situation. Marcos invited me to Manila in 1977, but some of

his disgruntled palace boys had revealed to us a plot for getting rid of me. I informed the Organisation of Islamic Conference immediately. However, the Tripoli agreement was renounced by Marcos himself on March 12, 1980. It was violated by him.

**Is there any hope of revival of the Tripoli agreement?**

We have gone very far. There is no turning back. Marcos has betrayed us. The Tripoli agreement was renounced by him. There is no hope of any revival of the agreement. We want complete independence.

**If the Marcos regime falls tomorrow, do you hope to attain independence the next day?**

I cannot be so sure of that, but I can assure you that our people will take advantage of the situation to have formal meetings with the opposition parties so that the modalities for the declaration and recognition of the Bangsa Moro Republic can be expeditiously sought. If they do not do this, we will continue our armed struggle.

**Are you hopeful that a political change in Manila will bring you closer to your goal?**

We are optimistic that the problem will be solved. Most of the opposition parties from the extreme left to the extreme right have declared their support for our right to self-determination and independence.

**Will the opposition parties countenance the independence of Mindanao?**

If they faithfully carry out their promises, then the problem will be solved. But if they don't our struggle will continue. They must realise that the era of colonisation has come to an end. Sooner or later the colonised people will achieve their freedom from foreign domination.

**Does there exist any cooperation between the MNLF and other opposition parties?**

The National Democratic Front has endorsed its support and recognition for our people's right to self-determination and independence. It is part of their 10-point programme. They recognise our sovereignty over our area.

The late Mr Aquino was sympathetic to our struggle. We wish good luck to all those who are fighting the Marcos regime. The Phillipines Democratic Socialist Party (PDSP) has also declared its support and recognition of the Bangsa Moro Republic as an independent state.

The MNLF has secured worldwide support for the Moro struggle. Before the MNLF was formed no one knew about the struggle and there were not many parties sympathetic to our cause. Now the situation is different and the opposition parties recognise our right to exist as an independent state. The PDSP which is a non-leftist group has communicated to the Organisation of Islamic Conference that they recognise the Bangsa Moro Republic.

**What form of government will you establish after the independence of your homeland?**

It is too early to say. We will form the national parliament and it will take decisions about the issue.

**Are you satisfied with the support given to your struggle by the Muslim countries?**

We have received moral and material support from the Muslim countries. We have also received some funds from the Islamic Solidarity Fund of the OIC. But that is not enough. We want more material support to continue our struggle and to run welfare services for our people properly.

CSO: 4200/759

SMC ALLOCATES 500 MILLION PESOS FOR EXPANSION

Manila BULLETIN TODAY in English 6 May 84 p 12

[Text]

Despite its forecast of unfavorable economic outlook this year, San Miguel Corporation — the country's most diversified manufacturing enterprise which chalked up record sales of ₱6.6 billion last year — has earmarked ₱500 million in capital expenditures this year for its expansion and modernization programs.

The amount was appropriated last month by the board of directors of SMC from the company's retained earnings which amounted to ₱1.3 billion at the end of 1983.

Together with the balance of ₱370 million from last year's appropriated retained earnings for expansion and modernization, SMC's capital expenditures this year from its own funds alone may reach ₱870 million.

This leaves a balance of ₱507 million in unappropriated retained earnings which may be tapped for cash dividends or future capital expenditures.

In its annual report to stockholders, SMC forecasts a continuation of the economic and financial difficulties that engulfed the country at the latter part of 1983.

"The overall economy may not post any growth in view of contractionary fiscal and monetary policies. The shortage of foreign exchange, tight financial conditions and increased operating costs will most likely persist and will serve to curb production in the manufacturing sector," SMC said.

The company also anticipates that inflation will remain at high level and markets should stay weak. However, SMC sees a silver lining in agricul-

ture which it expects will grow as a result of improved commodity prices.

Notwithstanding the difficult year in 1983, SMC realized a record net income of ₱403 million, which was a 300 per cent improvement from 1982.

The increase in sales of 18 per cent was slightly behind its target annual growth rate of 20 per cent, but the net profit rise of 30 per cent was also way above its corporate target of 20 per cent.

The company will hold its annual meeting Tuesday (May 8).

MARCOS INCREASES NHA CAPITAL, DECLARES PAYMENT AMNESTY

Manila BULLETIN TODAY in English 7 May 84 pp 1, 15

[Text]

**President Marcos** signed yesterday a decree increasing the capitalization of the National Housing Authority from ₱2.5 billion to ₱5 billion to boost the accelerated urban land reform program and help the underprivileged, particularly school teachers, own their land and homes.

The President also:

1. Issued a decree declaring an amnesty on the payment of interest on delinquencies on overdue accounts of certain lots and dwelling units in designated projects of the NHA.

2. Directed that henceforth the NHA shall be exempted from the payment of duties and taxes to ease the burden on the NHA borrowers who ultimately shouldered such payments.

The President's decree highlighted his address during the awarding of some 25,000 land titles to NHA beneficiaries and the inauguration of the Teachers' BLISS Condominium II in Balintawak, Quezon City.

The President said that the NHA has for sometime been the principal innovator and agent in such landmark projects as the Tondo foreshore and BLISS programs.

"In keeping with the wider and greater challenges the NHA must meet," the President said, "we should increase its resources and capabilities so that the example we inaugurate here in Balintawak will reach the entire archipelago."

The President said the awarding of the 25,000 titles to NHA project beneficiaries in Balintawak is a testament of the government's foremost concern and effort to ensure that "no Filipino is a squatter in his own country."

The President recalled he made this pledge in 1981 when he and the First Lady and Human Settlements Minister Imelda Romualdez Marcos first signalled the start of the massive national housing program by distributing some 10,000 titles to NHA project beneficiaries in Tondo.

"I pledged my leadership and the resolution to our government towards the fulfillment of this goal," he said.

Since that time, he said, the basic policy statement has become the rallying cry for so many of the urban citizenry not only in Metro Manila but also in all urban centers.

The President said that the government has not reneged on that promise since then. "We have continued to explore and avail of all means to turn into reality the hope of our urban poor to have their own land and their own homes."

Since 1981, the President said, the number of titles awarded to family beneficiaries have been increasing every year. In 1981, he said, 10,000 titles were awarded, 20,000 in 1982; 25,000 in 1983,

and another 25,000 this year.

It is true that in the past, politicians and political leaders have often spoken of "Land for the Landless," especially during election time. "Our people had come to see it as no more than just an empty slogan," he said.

Today, the President said, that slogan is a living reality in our midst. It is a vital priority program of our government today and it will not cease until we truly redeem in full our declaration that no Filipino shall be a squatter in his own country."

The President said that if anyone in the opposition will suggest that the awarding of land titles to the landless is a mere gimmick, "let us reply not with words but with the record of success we have had with this program."

The President said that records will show that his administration has done more in this area during the last 10 years than the efforts of all past administrations combined."

With the passage of the urban land reform amendment, the President said the government has set in place the mechanism to attend to the urgent needs of the urban poor.

In batting for a straight KBL ticket on May 14, the President warned that the opposition has no platform and would want the country to revert to the 1935 Constitution which was drafted by a foreign government and granted the same rights as Filipino citizens have in the exploitation of the government's natural resources to foreigners.

The KBL will never allow foreigner to exploit the country but will preserve the patrimony of the state for Filipinos," the President said.

The President said this is the reason why under the KBL the government has limited to 40 per cent the holdings of foreigners

in any business or corporation that has to do with the exploitation of natural resources.

Warning against returning opposition men to power, the President said that all the reforms and programs such as the land reform, educational reform, political reform, Sariling Sikap, KKK and others will be endangered.

On the assassination of former Senator Benigno Aquino Jr., the President said that if there was anybody who tried to persuade him not to return because his life was in danger, it was he and the First Lady, because they warned him several times, imploring him not to return to the Philippines.

MULTINATIONAL COMPANIES REPORT LAYOFFS, SHUTDOWN FEARS

Manila BULLETIN TODAY in English 7 May 84 p 26

[Text]

Multinational companies doing business in the country said that a significant number of local industries, firms and their affiliates and subsidiaries have begun to lay off workers following the country's current foreign exchange crisis.

The Philippine Association of Multinational Companies, Regional Headquarters, Inc. (PAMURI), the umbrella organization of multinational firms in the country, even told the Securities and Exchange Commission (SEC) that their clients, associate firms, affiliates and subsidiaries may even be forced to close down

their operations due to the prevailing inability of local companies to import necessary raw materials, equipment, spare parts and other requirements.

While PAMURI did not disclose how many firms have stopped operations and how many workers have been laid-off so far, it said that significant number of them have been recorded.

PAMURI said that the present scenario of economic difficulty has alarmed its members about such lay-off of work force.

Regional headquarters (RHQs) of these multinationals have submitted to the

PAMURI a four-pronged proposal designed to deter plant shut-downs and the economic dislocations of Filipino workers.

They proposed that multinationals should supply their local affiliates and or subsidiaries required raw materials and other urgent importations on a no "dollar basis."

The peso value of such importations was planned to be paid by the affiliate or subsidiary to the multinational companies' regional headquarters in place of the required inward remittance of foreign exchange.

A. Lewis Burridge, PAMURI president,

however, said that such arrangement should be adopted only after the minimum annual requirement of \$50,000 has been inwardly remitted.

The RHQs also proposed that local operations of multinational companies (MNCs) whose cash dividends, profits, royalties and patent-use receipts and others were deferred due to the present foreign exchange scarcity be allowed to transfer such funds to RHQs for their utilization.

This practice, according to Burridge, was allowed by the Central Bank even before the present crisis.

CSO: 4200/763

PHILIPPINES

IMPORTED OIL BILL EXCEEDS FOREIGN EXCHANGE COMMITMENT

Manila BULLETIN TODAY in English 7 May 84 p 27

[Text]

Foreign exchange requirements of oil import purchases and other energy-related activities will exceed the \$1.97 billion committed earlier by the Central Bank as additional expenses in oil drilling and coal importations have lately been given priority, and interest rates abroad are increasing.

With the Central Bank and the Ministry of Energy acceding to the request of foreign oil drilling companies to convert half of their peso proceeds from domestic production into the US dollars, sources in the government said foreign exchange commitments will likely exceed the \$2-billion mark.

On top of this, the CB and the ministry has also approved the release of dollars to domestic oil companies

in the Philippines Cities Service Inc. (PCSI) consortium to avoid a default situation since the expenses incurred in the drilling of two Galoc wells have to be paid for in US dollars.

Moreover, the sources said coal importations from Australia are to be financed partly by that country's Export Finance and Insurance Corp. which is providing the Philippines credit facility of A\$50 million.

The Australian trade facility is on top of the CB's commitment of \$23.4 million for coal import payments. Sources said Marinduque Mining and Industrial Corp. and Atlas Mining may utilize this facility since they have been allowed to directly import oil. Other coal im-

portations are to be made through the National Coal Authority and the coal corporation subsidiary of the Philippine National Oil Company (PNOC).

The sources did not say the exact amount of foreign exchange required by the oil and other related sectors although they admitted that it would exceed the \$2-billion mark.

The CB has committed earlier a total of \$1.97 billion which include interest payments from banks and suppliers amounting to \$222.6 million and other petroleum-related operations totalling \$128.3 million.

The latter is broken down into purchases other than direct product acquisition —

\$95.6 million, and payment of freight and demurrages — \$32.7 million.

PNOC was allocated the largest foreign exchange for crude oil imports with \$620 million with Caltex and Shell receiving \$570 million and \$410 million, respectively.

The allocations on a monthly basis are as follows: January — \$104.4 million; February — \$96.2 million; March — \$148.0 million; April \$216.8 million; May — \$99.8 million; June — \$145.4 million; July — \$143.1 million; August — \$185.1 million; September — \$104.0 million; October — \$135.6 million; November — \$122.0 million and December — \$99.6 million.

CSO: 4200/763

PHILIPPINES

IMPORTERS SEEK LOWER MINIMUM LOAN CEILING

Manila PHILIPPINES DAILY EXPRESS in English 8 May 84 p 10

[Text] Importers yesterday complained of the minimum loan requirement of \$50,000 imposed by the Philippine International Trade Corp (PITC) in the availment of the credit facility extended by the U.S. Export-Import Bank (Eximbank) to local producers.

Eximbank released early this year about \$95 million for industries to import their raw materials from the United States. The second tranche or package of \$100 million, and a \$50.8 million loan from an Australian bank, were approved last week.

In a dialogue with PITC and other banking officials, the complaining group, mostly small producers, said the loan package appears to be intended only for big importers who can come up with the peso equivalent of their dollar allocation based on the banking guiding rate.

The importers asked PITC President Jaime Gonzalez to bring down the minimum loan requirement to \$25,000 to allow small manufacturers to avail themselves of the credit facility.

He said the banks may agree to lower the minimum dollar allocation if the total loan charges of 10 percent are increased.

Gonzalez said the \$50.8-million credit facility approved by the Export Finance and Insurance Corp. (EFIC) of Australia requires local producers to import raw materials from Australia only.

The Philippines imports industrial commodities, spare parts, dairy products, coal, iron and steel products from Australia.

The small importers also complained that priority in the availment of both the Eximbank and EFIC loans to companies with historical import track records, reviewed by the BOI and approved only by Trade and Industry Minister Roberto V. Ongpin, concurrently BOI chairman.

Gonzalez was optimistic a third loan package from the Eximbank and the other traditional financing institutions are forthcoming.--Ray Magallanes

PHILIPPINES

INTERBANK LOAN RATE SOARS TO 55 PERCENT

Manila PHILIPPINES DAILY EXPRESS in English 8 May 84 p 10

[Article by George T. Nervez]

[Text] The cost of interbank call loans soared to a high of 55 percent last week as banks reeled under very tight credit conditions following the imposition of higher reserve requirements on deposits.

Data made public by the Central Bank yesterday showed that the interbank call rate, the cost of borrowing between banks, soared to a high of 55 percent last Friday, from only 53 percent the previous day and, 25 percent the previous week.

Even the CB's overnight RPs shot up to 53 percent last Thursday from 25 percent the previous week. Last Friday, overnight RP (repurchase) rates of the CB dipped to 46 percent.

The CB data also showed that short-term prime rates of banks rose to 27 percent last Friday. But some bankers said actual lending rates charged by banks go as high as 38 percent.

A month ago, the call loan rate hit a high of only eight percent and a low of four percent.

The sustained rise in the call loan rate means that some banks do not have enough funds to satisfy the minimum reserve requirements.

"This could indicate that some banks are suffering from heavy withdrawals, and are hard pressed for cash," banking industry sources said.

However, they pointed out that many banks are supposed to be liquid since banks have practically stopped approving new loans.

The increase in the call loan rates could also push the cost of bank loans higher, aside from further tightening bank credit.

Banking sources said that the increase in interest rates could also reflect the effect of massive funds being frozen in the CB due to the availment of forward exchange cover for foreign loans.

CB officials said even private companies do not have enough pesos to buy foreign exchange to pay interest on their foreign loans.

"We have allocated adequate foreign exchange to service interest installments, but the private companies do not have the funds to buy these from the banks," one CB official said.

CSO: 4200/763

CARTOON LAMPOONS POSTURING OVER SRV ATTACKS

Bangkok DAO SIAM in Thai 22 Apr 84 p 6

[Text]



[Key on following page]

Key:

1. We call on you to condemn the Viets.
2. Real estate salesman: Those Viets are godawful. They commit aggression, threaten to grab land. The people face hardship and are made homeless as their homes are overrun.
3. [Sign] Saudi Arabia. The Viets savagely provoking a war of genocide. Hundreds of thousands, millions of people must flee their country.
4. [Member of parliament] Those damn Viets... They lie like crazy. You just can't trust them.
5. As the factory owner, I condemn the Viets for their cold-blooded use of poison gas to wage a war of death.
6. Official: Those Viets must think they're big shots. They're really miserable... Go wait outside.
7. [Bangkok mayor]: Those Viets are just like some old people in our country. They're stubborn and don't give a damn about world opinion.
8. Those stinking Viets, they don't want to admit that they invaded Thailand.
- 8a. Western culture
9. We believe that the actions of the Viets demonstrate their will that they don't want to allow Southeast Asia to have peace, unity, freedom, territorial integrity...

CSO: 4207/147

THAILAND

CARTOON SPOOFS TREATMENT ACCORDED REFUGEES

Bangkok BAN MUANG in Thai 27 Apr 84 p 4

[Text]



Key :

1. Racially foreign feudalists
2. [Kampucheans]
3. [Ethnic Thais]
4. [Vietnamese]
5. [Burmese]
6. [Prem]
7. The sweat of the Thai people
8. Illegal refugee immigrants

MILITARY AFFAIRS AND PUBLIC SECURITY

FEATURE VIEWS DRY SEASON RESULTS IN KAMPUCHEA

BK121431 Hanoi Domestic Service in Vietnamese 1400 GMT 10 May 84

[Talk by station editor Vu Dinh Vinh from the feature: "Heighten Vigilance for National Defense"]

[Excerpt] The Kampuchean situation during the 1983-84 dry season was very active and victorious, showing more clearly than ever the solidity, stability and rapid growth of the Kampuchean revolution. No hostile forces can reverse this situation. Throughout a dry season of persistent struggle, the people in the friendly country scored many new resounding victories. In almost 4 months, from 27 December 1983 to 15 April 1984, along the entire western and north western Kampuchean frontier bordering Thailand, from Koh Kong to Preah Vihear, the Kampuchean revolutionary armed forces, fighting side by side with Vietnamese volunteer troops, repeatedly foiled and defeated many enemy counter-attacks one after another, thus frustrating the enemy's dry-season maneuvers.

The expansionist forces--which are acting hand in glove with imperialism--and various reactionary forces had nurtured great hopes before the recent dry season arrived. Back in late 1983 they sought to aid the Pol Pot army remnants and other Khmer reactionaries, directing and urging them to intensify their sabotage activities against the Kampuchean revolution by achieving close co-ordination between various areas--military, psychological and diplomatic. Militarily, they sent many men from their hiding place in Thailand to surreptitiously infiltrate into Kampuchean territory to carry out sabotage activities in a number of localities bordering on Thailand, thus creating many brutal and barbarous incidents of terrorism, killing and looting.

Their perfidious schemes during the 1983-84 dry season were designed to serve the following objectives:

1. To create a psychological impact at home and abroad and to sabotage the Kampuchean people's efforts to build their nation and a new life.
2. To prevent the Kampuchean Army and people from dealing punitive blows to their hideouts at the Kampuchean-Thai border. They hoped to use these hideouts as springboards for their attacks to grab some pieces of land so as to establish a foothold for their so-called coalition government, thus creating more conditions for them to further sabotage the Kampuchean revolution.

Consequently, it is not surprising that in the early part of this dry season, they and their master repeatedly reported on the so-called victories of the Pol Pot and other Khmer reactionary cliques and their imaginary attacks on this or that area inside Kampuchea. They boasted that Khmer Rouge held the initiative in the battlefield, and so on. In reality, the initiative always rested with the Kampuchean Army and people who are fighting in coordination with Vietnamese volunteer troops. The Kampuchean people's right to deal punitive counterblows to the Khmer reactionaries is very legitimate and essential.

In March and April, the Kampuchean-Vietnamese forces mounted a constant crack-down on and dealt a series of offensive blows to various important base camps of the Pol Pot and other Khmer reactionary cliques along the Kampuchean-Thai border, shocking them and frightening their master. The 1983-84 dry-season victory of the Kampuchean revolution was the greatest all-round victory of the past 5 years. The Kampuchean revolutionary armed forces and Vietnamese volunteer troops attacked and destroyed a string of command posts, hideouts, base camps, supply depots and other important material bases of the Pol Pot clique and the Khmer reactionaries, inflicting heavy casualties on them.

During the recent dry season, the Kampuchean-Vietnamese forces eliminated more than 4,500 enemy soldiers--of whom more than 270 surrendered and 300 others deserted--and captured nearly 2,000 weapons of all sorts, hundreds of metric tons of ammunition, and large quantities of Chinese-made military equipment. In what was described as deadly blows, the so-called forward command post of the Pol Pot army's general staff was reported to have been attacked and destroyed together with a string of other enemy units such as the so-called 612th, 616th and 980th divisions stationed in the area of hill 547 to the north of Preah Vihear, the so-called 912th division of Pol Pot stationed at hills 382 and 362 to the northwest of Anlung Veng, the so-called 221th and 110th division of Pol Pot stationed to in the southwestern part of Ta Sanh in Battambang Province, the so-called 401st military region of Son Sann in the western part of Sok San in Pursat Province, the Ampil base camp of Son Sann in the northwestern part of Thmar Puok district town, and so forth.

Being dealt such deadly blows, the enemy's major plans for the dry season were naturally bankrupted. In addition, all the enemy's important bases at various border exit points have been destroyed and their logistics depots have been demolished, resulting in their infiltration routes being blocked, the internal ranks of their three factions being more at odds, and their morale being further sapped.

With their 1983-84 dry season victory, the Kampuchean army's and people's initiative and offensive position has been further consolidated. Through their combat and ordeals, the Kampuchean People's Revolution Armed Forces have matured remarkably. Their fighting strength has been further enhanced. Together with the Vietnamese volunteer troops, they have launched many precise attacks on various objectives and have displayed a high combat effectiveness in fighting the enemy.

At present, the Pol Pot clique and Khmer reactionaries and their master, though having experienced very painful blows and serious losses and having been on a down-hill trend, have yet to resign themselves to defeat. Developing

their 1983-84 dry-season victory, the Kampuchean Army and people are continuing to heighten vigilance, maintain high combat readiness, accelerate their mopping-up operations against the enemy, and frustrate all the enemy's sabotage schemes in order to firmly protect the Kampuchean revolutionary gains.

CSO: 4209/284

MILITARY AFFAIRS AND PUBLIC SECURITY

YOUTH UNION COMMENDS BORDER YOUTHS, MILITARY

BK151133 Hanoi Domestic Service in Vietnamese 1430 GMT 12 May 84

[Text] On 11 May, the Ho Chi Minh Communist Youth Union Central Committee Secretariat sent a message commanding youths and combatants of the armed forces of the northern border provinces. The contents of the message are as follows:

Dear Comrades: In April and during the first days of May, acting hand in glove with the U.S. imperialists, the Chinese reactionaries successively carried out acts of provocation and aggression along the entire northern border of our country. With a sense of revolutionary vigilance and combat readiness, and with the impetus of heroic Dien Bien Phu, youths in the border provinces have joined the local armed forces and people in fighting gallantly against the Beijing expansionists and duly punishing them for their armed provocations and burglarous attacks.

Your military exploits are the pride of our youths and people throughout the country. The youth union Central Committee Secretariat would like to warmly commend you for these outstanding military exploits and convey to you the feeling, trust and affection of youths throughout the country. All youth union chapters, cadres and members should draw experience from these military exploits in order to forge determination, improve fighting ability, and stand ready to smash all schemes of sabotage of the enemy, thereby protecting the lives and property of the people and defending the border of the country.

The youth union Central Committee Secretariat would like to inform you that all youths throughout the country are emulating with their fellow youths in the armed forces and in the northern border provinces in accelerating the five revolutionary action programs, fulfilling all planned norms for economic and social tasks in localities and throughout the country, and stepping up activities in the movement for the country's forward positions. This is aimed at making themselves worthy of the military exploits achieved by you--the combatants who are defending the border of the country.

The youth union Central Committee Secretariat and all youths throughout the country are waiting for your new military exploits.

Our cordial and determined-to-win salutation.

CSO: 4209/284

## INTERNATIONAL RELATIONS, TRADE AND AID

### ARMY PAPER HAILS PRK'S MILITARY ACHIEVEMENTS

OW132000 Hanoi Domestic Service in Vietnamese 1100 GMT 11 May 84

[Text] Under the heading, "Important Victories That Have Further Consolidated the Position of Kampuchea's Revolution," today's QUAN DOI NHAN DAN commentary says:

Over the past months, the Kampuchean Armed Forces and people have scored outstanding feats of arms in resounding battles in many areas along the Kampuchean-Thai border.

Despite their increasingly lofty political isolation on the international arena, their internal discrepancies and conflicts, their increasingly deteriorate strength, and the Kampuchean's hatred for them, the Pol Pot clique and other Khmer reactionaries, spurred by their masters, have over the past months striven to dispatch many of their armies stationed on Thai territory to infiltrate onto Kampuchean soil to carry out sabotage, espionage and psychological warfare activities.

In order to create false victories, the genocidal clique has resorted to every possible brutal and savage move wherever it can infiltrate.

The article continues: On the contrary, at a time when Beijing's henchmen are making a fuss about these victories, the clique is sustaining painful blows. In the face of its unpardonable crimes, the revolutionary Kampuchean Armed Forces, in coordination with the Vietnamese volunteer army units, have received the order to launch punitive attacks on the reactionaries right in their bases on the border in order to protect national sovereignty and construction and the Kampuchean people's peaceful life.

According to the PRK Defense Ministry's communique on 5 May 1984, from 27 December 1983 to 15 April 1984, the revolutionary troops attacked and smashed numerous bases of the Pol Pot clique and other Khmer reactionaries along the entire Kampuchean-Thai border.

The article points out: The military victories achieved by the armed forces and people of fraternal Kampuchea in punishing the Pol Pot clique and other Khmer reactionaries along the Kampuchean-Thai border were very great and significantly important. They were indeed the greatest military achievements

scored since the liberation of Kampuchea from the brutal rule of the genocidal henchmen of China.

After sustaining these heavy punitive blows, the forces of the Pol Pot clique and other Khmer reactionaries have become even weaker and disintegrated.

What has happened on Kampuchean soil over the past years, and especially on the Kampuchean-Thai border since the end of 1983, has testified to the strength of the revolutionary administration and the rapid maturation of the revolutionary armed forces of Kampuchea.

The Kampuchean Armed Forces' and people's recent important victories have basically frustrated the malicious schemes of the Chinese masters who have closely colluded with the U.S. imperialists and their henchmen in the so-called dry-season program of action for this year. Moreover, these victories have helped consolidate the Kampuchean revolution's position both militarily and politically as well as Kampuchea's national defense and security, thus leading to the frustration of their subsequent schemes.

After recalling the PRK Defense Ministry's 5 May communique calling on all the Kampuchean Armed Forces and people to heighten vigilance and stand ready to smash all counterrevolutionary schemes, the article stresses:

Encouraged by the revolutionary Kampuchean Armed Forces' great victories, the Vietnamese People's Armed Forces have over the past days fought very valiantly and well, shelled accurately, and scored many outstanding feats of arms on the northern border of the fatherland, dealing appropriate counterblows to the Chinese expansionists' provocations and land encroachments. More than ever before, the armed forces of the three fraternal Indochinese countries, being fully aware of their common enemy's sabotage schemes, have united and coordinated closely and are emulating in scoring military achievements in the firm protection of their territories, their revolutionary cause, and their peoples' lives.

CSO: 4209/284

INTERNATIONAL RELATIONS, TRADE AND AID

VO DONG GIANG'S SPEECH IN NICARAGUA REPORTED

BK140925 Hanoi Domestic Service in Vietnamese 1430 GMT 12 May 84

[Text] On 10 May 1984 the third conference of labor ministers of nonaligned countries was convened in Managua, the capital of Nicaragua, with chairman of the Nicaraguan Government Council Daniel Ortega delivering the opening speech. A delegation of the SRV headed by Minister Vo Dong Giang attended the conference.

Speaking at the conference's plenary session on 10 May, Minister Vo Dong Giang pointed out: Good resolution of the labor issue in each of our countries constitutes a protracted and complex struggle that is closely linked with the broad struggle for the lofty ideals pursued by the nonaligned movement and other progressive forces in the world, the struggle for political and economic independence and sovereignty of nations and countries, the struggle for a new just and rational economic world order, and the struggle for lasting and stable peace throughout the world as well as in each continent. The cause of developing and utilizing human resources in each country can only be basically realized when the noble objectives mentioned above are completely fulfilled.

About the labor issue in Vietnam, the minister said: The most important thing is to realize the laboring people's right to collective mastery in order to utilize labor and land in a rational and effective manner and create a higher social labor productivity, a greater gross output value, and a more diverse structure of products. Collective mastery is at the same time the goal and a great driving force for building a new economy and a new society with the aim of bringing into full play the dynamism and creativity of the laboring people--those who directly master the socioeconomic processes.

The minister condemned the ever more serious steps of military escalation taken by the Chinese expansionists and hegemonists, and pointed out:

Struggling to eliminate the threat of the Chinese expansionists and hegemonists is an extremely important task that must be done so that we will be able to devote all our labor resources to national construction.

The minister condemned imperialist forces for conducting activities to oppose the interests of nations and countries and prevent the optimal use of labor resources for peaceful construction.

Voicing support for the Nicaraguan people's current struggle, the minister asserted the total support of our people and government for the valiant self-defense struggle of the Nicaraguan people under the clear-sighted leadership of the Nicaraguan Government of National Reconstruction and the Sandinista National Liberation Front. He stressed: The will of three million Nicaraguans and of all nations in this region and the rest of the world, including the progressive American people, sternly cautions the U.S. imperialists to keep their hands off Nicaragua. If the United States continues to plunge blindly into a new military adventure against Nicaragua, it is surely unavoidable that it will meet a second Vietnam in this heroic land of Nicaragua.

While attending the conference, Minister Vo Dong Giang answered interviews given to press agencies, newspapers and TV companies on the issues under discussion at the conference as well as on the current life, work and fight of the Vietnamese laboring people. He affirmed the militant solidarity of the Vietnamese workers and people toward the labor and struggle efforts of the Nicaraguan people.

CSO: 4209/284

## PARTY ACTIVITIES AND GOVERNMENT

### DIRECTIVE ISSUED ON STUDENTS' SUMMER ACTIVITIES

BK141419 Hanoi Domestic Service in Vietnamese 2300 GMT 12 May 84

[Text] The chairman of the Council of Ministers recently issued a directive on the organization of summer activities for students of higher, advanced, mid-level vocational, and vocational education schools. The directive points out:

The Ho Chi Minh Communist Youth Union Central Committee, the higher, mid-level vocational, and vocational education sector, and other sectors concerned must pay attention to organizing summer activities for students of higher, mid-level vocational and vocational education schools. Beginning this year, summer activities must be organized in a proper and careful manner in order to meet both the need for rest and revitalization for the students and the requirement of training them through the realities of life. Efforts must be made to step by step bring summer activities of higher and vocational schools into a regular pattern.

In the coming years, every student, except for final-year students, will spend 2 of the 8 weeks of summer vacation participating in activities organized by their schools and the youth unions in order to satisfactorily meet the following requirements and goals:

--Introduce students to scientific-technological and productive labor activities according to their fields of study, and to social activities in order to realistically further the socioeconomic objectives of the various localities and production establishments, especially at major central and local projects, thus ensuring educational effect while developing the students' ability to contribute.

--Create conditions for large numbers of students to steep themselves in the realities of the country's three revolutions and, on this basis, to strengthen their confidence and forge their revolutionary spirit, thus making them ready to serve the cause of building and defending the fatherland upon graduation.

--Organize students into forces of appropriate sizes to participate in the building, repair and protection of schooling facilities; step up production activities; and improve school life, thus contributing to beautifying schooling facilities and systematically perfecting the educational atmosphere at schools.

Preparations must be made carefully in all respects. It is necessary to avoid massive mobilization of resources that may result in wastage. Collective activities must be organized satisfactorily to improve the asthetic appreciation capability and physical fitness of students and to create a happy, healthy, and enthusiastic atmosphere for them to embark on carrying out their tasks in the new school year with good results.

The directive also points out the specific responsibilities of the various sectors, echelons and mass organizations in organizing summer activities for students.

CSO: 4209/284

PARTY ACTIVITIES AND GOVERNMENT

BRIEFS

ELECTION PREPARATIONS--From 7 to 11 May, Comrade Huynh Tan Phat, vice chairman of the Council of State, inspected the elections of people's councillors at the district, village and equivalent levels in Hau Giang Province. The comrades of the party committee's standing committee, the people's committee, the VHF committee, and the election guidance committee of Hau Giang Province reported to Comrade Huynh Tan Phat on the status of operations of the people's councils and committees at all levels and the research on and organization of the study and implementation of the two new laws on the organization and elections of people's councils. Vice Chairman Huynh Tan Phat commended the local party organizations, people's committees, and people of various localities in the province for their many efforts to satisfactorily prepare for the elections in strict accordance with the established principles, schedules and laws and to ensure the working people's right to collective mastery. He praised the province for paying attention to turning work reviewing and the practice of criticism and self-criticism of the people's councils and committees at all levels and of individuals before the masses into regular activities. He also made some suggestions to the province on the task of further developing the people's collective mastery and on the correct exercise of the functions and powers of the basic-level people's councils and administration so as to help successfully carry out the localities' political and economic tasks. Vice Chairman Huynh Tan Phat inspected election preparations in Can Tho City, the Chau Thanh District, Soc Trang City, Thanh Xuan and Tan Phu Thanh villages in Chau Than District, and the 1st and 5th Wards in Soc Trang City. [Text] [BK150841 Hanoi Domestic Service in Vietnamese 1430 GMT 14 May 84]

CSO: 4209/284

## ECONOMIC PLANNING, TRADE AND FINANCE

### EDITORIAL REVIEWS 1983 ACCOMPLISHMENTS

Hanoi VIETNAM COURIER in English No 1, Jan 84 pp 1-2

[Editorial: "A Year of Remarkable Progress"]

[Text]

*After a difficult period of time, the economy of Vietnam is now on an upward trend. Stabilization has come about step by step in many areas of activity. Prospects for even stronger development have emerged.*

Most striking has been the progress in food production. Our total output in paddy equivalent rose from 14.4 million tonnes in 1980 to 15.1 million in 1981 and then to 16.2 million in 1982. This year, in spite of successive floods and storms in the later months, the target of 17 million tonnes looks attainable.

The new managerial mechanism in agriculture has made its impact. The forming of high-yield rice areas, which are expected to account eventually for about one-third of the rice area and half of the total output, has also been a factor contributing to success.

Noteworthy is the fact that food output has increased continually in spite of a sharp decrease in such supplies by the State as fertilizers, insecticides, fuel and spare parts for agricultural machines. There has been a continual drop in subsidiary food crops which usually account for 15—20% of the total food production. This has been due to inadequate policies in this field. It is clear that if the supply of materials and equipment is improved and more attention is given to the production of subsidiary food crops we shall be able not only to dispense with food imports but shall also have more food reserves and be in a better position to expand stockbreeding.

Progress has also been recorded in industrial, small industry and handicraft production. Particularly inspiring is the completion or near completion of such key projects of socialism as the Bim Son and Hoang Thach cement works, the Bai Bang pulp and paper mill, the Pha Lai thermo-power plant and the Thang Long bridge. Meanwhile, construction is going apace at the Hoa Binh and Tri An hydro-electric power projects, the Dau Tieng irrigation system, the Vung Tau oil and gas complex and other undertakings. Special areas devoted to industrial crops like rubber, coffee and tea, covering hundreds of thousands of hectares and even up to one million hectares, are taking shape. 1983 has seen a considerable improvement in the supply of energy and building materials and in communications and transport. Important projects in mechanical engineering, metallurgy, production of fertilizers and basic chemicals are being or will be built to enable large-scale socialist construction from 1990 onward.

These are the foundations which will make it possible for us to forge ahead and improve the living conditions of our people, now still beset with difficulties.

Even more heartening and prideworthy is the political situation in our country. Local congresses of the Communist Party of Vietnam (second round) have been held in all provinces and major cities. They have further cemented the unity of mind within the Party with regard to the line and policies laid down at the Fifth National Congress and subsequent plenums of the Party Central Committee, especially the third and fourth plenums in 1983 concerning the immediate socio-economic and ideological and organizational tasks. The resolutions of the Political Bureau of the Party Central Committee on the capital city of Hanoi and on Ho Chi Minh City, issued respectively in January 1983 and October 1982, highlighted the importance of these two major cities of the country. 1983 has also seen the holding of congresses of many social and professional organizations, beginning with the Second Congress of the Vietnam Fatherland Front in May: congresses of the Vietnam Federation of Trade Unions, and of associations of writers, stage artistes, cinema workers, musicians, architects, and journalists.

The Congress of Vietnamese Catholics, which led to the foundation of the Solidarity Committee of Patriotic Vietnamese Catholics, is further proof that the religious communities in Vietnam are joining with the entire people in implementing the line of socialist construction charted by the Communist Party.

On the security front, the elimination, chiefly through persuasion, of the counter-revolutionary organization called FULRO (United Front for the Liberation of Oppressed Races) set up and fostered by foreign powers, has strengthened the solidarity of all nationalities living on Vietnamese territory.

National unity has allowed us to strengthen solidarity with our neighbours: Laos and Kampuchea. The first summit conference of the Indochinese countries, held in February 1983, is a historic landmark. At the conference, the three fraternal countries solemnly reaffirmed their respect of each other's independence and sovereignty and non-interference in each other's internal affairs, with a view to establishing close relations of friendship and cooperation, based on equality and mutual advantage.

1983 has also been an opportunity for us to strengthen a crucial front: solidarity with the Soviet Union and the entire socialist community. The fifth anniversary of the Treaty of Friendship and Cooperation between Vietnam and the Soviet Union was marked by the signing of a document the significance of which could not escape the attention of foreign observers: a long-term program for the development of economic, scientific and technical cooperation between the two countries. The cooperation between the two Parties and peoples has stood the test of time and will surely overcome all trials. Unity with the Soviet Union is the cornerstone of our foreign policy.

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The internal political strength of Vietnam, which is step by step improving its economic situation

and strengthening its unity and solidarity with Laos, Kampuchea, the Soviet Union and all the socialist community, has shattered all hopes of our enemies for our exhaustion and eventual collapse.

We are fully conscious of our being part of Southeast Asia, and we will make unstinting efforts to help build a peaceful and secure Southeast Asia. We have put forward many constructive proposals aimed at ensuring peaceful co-existence and friendly cooperation between the two groups of countries with different socio-political systems, the Indo-chinese countries and ASEAN countries. This has not yet become a reality chiefly due to the manoeuvres of the Beijing leaders who continue to use the so-called "Kampuchean problem" to provoke division and confrontation between the two groups of countries and to establish a Chinese foothold in Kampuchea. But the People's Republic of Kampuchea which will celebrate its fifth anniversary on January 7 has demonstrated the wonderful vitality of the Kampuchean nation. This revival has been made possible thanks to the efforts of the Kampuchean people themselves, with the assistance of Vietnam, the other socialist countries, and the friends of Kampuchea in all continents. Kampuchea's international position has been further strengthened in 1983 by the recognition by the People's Socialist Republic of Albania.

China has left no stone unturned to prevent a dialogue between Vietnam and ASEAN, but the trend toward a dialogue continues. Formulas for such a dialogue have been set forth by a number of ASEAN countries and in New Delhi as well as in Manila. Even in Thailand, this trend is gaining the support of ever more political figures. The shift in the policy of Australia under the Labour Government in 1983 is very significant. Australia has shown its opposition of the maintenance of the genocidal Pol. Pot clique and its displeasure at the lack of flexibility of Beijing.

On the other hand, more and more people have seen Vietnam's sincere desire for peace in order to build the country, and to make up for the time lost in more than 30 years of continuous war. Not only have we striven to improve our relations with the ASEAN countries and shown our readiness to forget what some countries of this organization did to us in the past by siding with imperialist powers, but we have also done our best to normalize relations with China. But in 1983 as in previous years, China has continued to fight shy of all talks with Vietnam. It has even sought the help of Vietnam's friends in pressuring us into making concessions, but to no avail. Will the Beijing leaders ever understand that the only practical course for them is to hold direct talks with Vietnam?

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We know that not everything will be smooth sailing for us in 1984. We shall have a long way to go before we can persuade China to agree to peaceful co-existence with Vietnam. We must also continue our persevering efforts to build ties of friendship with the ASEAN countries.

But the steady progress of the past years inspires us with confidence in the future as we welcome the new year.

15 December 1983

## ECONOMIC PLANNING, TRADE AND FINANCE

### RICE PRODUCTION IN CENTRAL VIETNAM REPORTED

Hanoi VIETNAM COURIER in English No 1, Jan 84 pp 18-20

[Article by Vu Cong Thao: "Progress in Rice Production in Central Vietnam"]

[Text]

After twenty years of agricultural collectivization, the technique of intensive rice culture is now firmly established in the Red River delta. From 2.28 tonnes per hectare per crop in 1980, rice production rose to 2.99 tonnes in 1982, a boost of 30%. While 17 years ago, Thai Binh was the only province to obtain a yield of 5 tonnes per hectare per year on all its rice-fields, in 1982 — 1983, its success was followed by that of Hai Hung, Ha Nam Ninh, the suburbs of Hanoi and Haiphong.

For 13 years running, Vu Thang cooperative (Thai Binh province) has harvested 9 tonnes of rice per hectare (two crops) and for 12 years it has produced 0.6 tonne of rice per head of population. But in the last three years, it has been outstripped by Nguyen Xa cooperative (also in Thai Binh). By reorganizing its labour force and cooperating with the technical teams sent by the district and province,

in 1982, Nguyen Xa obtained a rice yield of 10.56 tonnes per hectare.

In the Red River delta, by 1982 the number of cooperatives expert in intensive culture had risen to nearly 140 (7 cooperatives got a per hectare yield of over 10 tonnes). On the district level, 14 districts reaped 7 tonnes/hectare and more. In winter 1982 and spring 1983, though handicapped by bad weather, over one hundred co-operatives and 14 districts in the Red River delta boasted a rice yield of 5 tonnes per hectare.

However, barely a few years after liberation, the coastal provinces of central Vietnam have done even better than the Red River delta.

Take for example Dien Tho cooperative (Dien Ban district, Quang Nam — Da Nang province). Eight years ago, its ricefields were lying fallow, and it was not at all

certain that its 4,400 inhabitants would even enjoy stable living conditions. And yet, in five years, the Dien Tho people were able to improve 482 hectares of land, build two areas of high-yield ricefields which lent themselves to mechanized tilling and were easy to irrigate throughout the year. Thanks to a body of cadres receptive to modern techniques and capable of arousing the spirit of collective mastery of the co-op members, rapid progress was achieved: Dien Tho harvested 10.45 tonnes of rice per hectare (three crops) in 1979, and 12.5 tonnes in 1982.

The fruitful efforts of the peasants of central Vietnam are highlighted by the work done in Dien Ban district. During the war, this district was turned into a "no-man's land" by the Americans and their puppets, who struck at it hard in order to protect their big military bases in Da Nang. Now the inhabitants have pooled efforts to restore the fields, carry out agricultural cooperation together with irrigation, improve the soil, and practise intensive culture. The sight of its narrow strips of arid land full of bomb craters and metal debris made one wonder whether Dien Ban could ever solve its food problem. But after six years of efforts it was able to raise its rice yields from 4 to 10 tonnes per hectare, or an increase of one tonne per year on an average. In 1982 in particular, it obtained 11 tonnes.

The success obtained by Dien Ban district is the result of the combined efforts of the district and the cooperatives in agricultural production and economic management on the basis of a rational distribution of tasks: the district takes charge of the supply of materials, sends tractors, and undertakes irrigation. The cooperatives tend the crops, ensure observance of the planting schedule, the execution of the plan of production and the application of the right techniques. The production brigades see to the distribution of manpower and use of manure, and execute the plan of the cooperatives. Dien Ban district patiently builds the material and technical bases for intensive culture and in particular is able to satisfy its own needs in plant seeds.

In Quang Nam — Da Nang province, three districts and 40 cooperatives have also excelled in agricultural work. Leading the province and indeed the whole country is Dai Phuoc cooperative in Dai Loc district. Its croplands lie at the foot of the Truong Son Range. Here water conservation does not mean fighting floods or drought, but preserving the fertility of the soil by fighting erosion in the flood season.

Dai Phuoc cooperative has an area of 78 hectares planted with three crops a year, another of 6 hectares, newly reclaimed, where

two crops are grown annually, and an area of 16 hectares planted with subsidiary food crops and industrial crops, all provided with a comprehensive irrigation system. In the last six years, the cooperative has a workforce of 625 farmers and 358 other workers. Besides practising intensive culture of rice as its main line, it goes in for animal husbandry and engages in occupations serving intensive farming. Its members never cease to learn from the experience of other regions in order to correct deficiencies.

To grow three rice crops a year by intensive culture, Dai Phuoc cooperative must have enough manure. For this it has to keep six pigs per hectare of cropland; every two peasant households keep an ox or a buffalo; 90% of the households grow leguminous plants and use compost prepared from garbage. The co-op members also practise handicrafts and make export goods for which the State gives them 120 tonnes of urea fertilizer. As a result, the cooperative has obtained 21.6 tonnes of paddy per hectare per year.

Thuy Duong cooperative, lying in the hilly region near Hue city, has a vast submerged plain. Now the 285 hectares it devotes to summer-autumn rice are drained by mechanical pumps, norias and water wheels. Its other fields are irrigated by a system of canals, ditches and water reservoirs built on mountain slopes. With the night soil from Hue city (500 — 750 tonnes a year) and a well-organized

labour force, it has raised its rice output from 4.58 tonnes/hectare in 1978 to 10.3 tonnes/hectare in 1982.

Farther south, Tuy Hoa district in Phu Khanh province, formerly grew only one rice crop a year. The farming method was backward and productivity very low. Many peasants, threatened by famine, had to leave the district to earn their living elsewhere. After liberation, Tuy Hoa has practised a new mode of production. It has organized its peasants into cooperatives, developed its irrigation network and applied new farming techniques. Growing at first only one crop a year (winter — spring), it then grew a second crop (summer — autumn) and later a third crop (spring — summer) and has brought its high-yield and other ricefields, totalling 30,000 hectares, under intensive culture, setting an example to other districts in the province. Like Hai Hau district in Ha Nam Ninh province up north, where no cooperative now harvests less than 6 tonnes of paddy per hectare per year, no Phu Khanh district now produces less than 5 tonnes/ha. Seventeen of its cooperatives now reap over 10 tonnes/ha, the remaining ones, over 9 tonnes.

Many districts and many cooperatives in the coastal plains of central Vietnam (former 4th zone and 5th zone) have learned to practise intensive culture from vanguard cooperatives in the region and in the Red River delta, and have obtained good results. They have made quick

progress in the application of new methods of economic management and new farming techniques, increasing their rice production by 21% (Quang Nam—Da Nang, Nghia Binh, Phu Khanh in the 5th zone) and by 45% (Binh Tri Thien in the 4th zone) compared with pre-liberation days.

Can production be boosted even further? It can, if intensive culture is applied in coordination with multiplication of crops as a way of enlarging the planting area and obtaining comparable yields in all the fields.

However, the food ration in Quang Nam—Da Nang province is still very low, only 342 kg of paddy per head of population. This is due to a low coefficient of land utilization. Three-crop fields are few for they cannot be built everywhere. Of the 52,000 hectares of ricefields in the province only 20,000 hectares are suitable for multiplication of crops. This stems from the fact that only in 1978 did the province begin to expand the area giving a third crop, spring—summer rice, which yields 3.97 tonnes per hectare, a yield not in the least inferior to that obtained from the two crops so far planted.

The general trend in many regions in central Vietnam is to practise intensive culture and multiplication of crops according

to the crop rotation and overlapping method. One-crop fields are thus upgraded into two-crop fields, and two-crop fields into three-crop fields. With regard to the three-crop fields new formulas have been worked out: formerly the An Nhon peasants reckoned that given the dense population and shortage of land, it was necessary to raise three crops a year, in order to have enough food. Now they have found out that in order to grow three rice crops and obtain 12 tonnes of paddy they will have to use 25 tonnes of organic manure and 0.8 tonne of nitrogenous fertilizer; on the other hand, if they grow only two rice crops to secure 10 tonnes of paddy, plus a crop of soya yielding 1.5 tonnes of beans (equivalent to 15 tonnes of paddy) they will have to use only 16 tonnes of organic manure and 0.6 tonne of nitrogenous fertilizer. Thus, by practising intensive culture according to the latter method, they can lower production costs, improve the fertility of the soil, save manpower, water, fertilizers, and obtain better economic results. Many regions have learned from An Nhon's experience.

HEALTH, EDUCATION AND WELFARE

BRIEFS

ARTS, LETTERS CONFERENCE--VAN NGHE [Arts and Letters] weekly [date not given] largely reported on the national conference of the Vietnam Arts and Letters Federation [VALF]. The magazine published the report by Comrade Cu Huy Can, a VALF vice president, presented at the conference, and the full text of the letter from State Council Chairman Truong Chinh to the conference. The letter reads in part: Our people countrywide are carrying out a socialist revolution, a most radical revolution which can bring about drastic reforms in social life and make a strong impact on human thinking and feelings. Many fine examples of revolutionary heroism and the spirit of collective mastery of our laboring people have been developing daily and hourly in all fields of activity of our cadres and people. Meantime, negative manifestations, bad habits and foibles that are relatively widespread in many areas are hampering our social progress. (?In addition), our enemy is carrying out a multifaceted war of sabotage against our regime. An arduous and decisive class struggle to definitely settle the "who defeats whom" issue between the socialist path and the capitalist path is being waged in all fields, especially on the ideological and cultural fronts. [From the press review] [Text] [OW150955 Hanoi Domestic Service in Vietnamese 1000 GMT 14 May 84]

CSO: 4209/284

## POPULATION, CUSTOMS, AND CULTURE

### CATHOLICISM IN VIETNAM VIEWED

Hanoi VIETNAM COURIER in English No 1, Jan 84 pp 14-18

[Article by Hoang Nguyen: "Vietnamese Catholicism-1983"]

[Text]

An important event has just taken place in the life of Catholics throughout Vietnam: The National Congress of Vietnamese Catholics for National Construction and Defence and for the Defence of Peace was held in Hanoi from 8 to 10 November 1983 with the participation of 299 delegates — 142 priests, 11 monks and 146 laymen from 36 cities and provinces.

The Congress decided to set up a new organization called Solidarity Committee of Patriotic Vietnamese Catholics composed of 74 members, including 49 priests, 1 nun, and 24 laymen, among them 3 women. The Committee set itself the task of uniting all patriotic Vietnamese Catholics, helping them "live in the spirit of the Gospel in the bosom of the nation to serve their fellow-countrymen's happiness" — that is to live in the bosom of the Church while conforming to national traditions, treasuring patriotism, national independence, and participating in national building and defence.

This Committee is not the executive body of a social organization, hence there is no member to this organization. The Catholics will join social organizations such as the youth's, women's, workers', writers', artists' associations... depending on their sex, profession... The Solidarity Committee of

Patriotic Vietnamese Catholics will encourage everybody to join these organizations and help them clear any obstacle arising from their religious involvement. The Committee has a central body and branches in cities and provinces where there are many believers. The Central Committee directs and helps committees at lower echelons.

The Committee continues the work of the Liaison Committee of Patriotic and Peace-loving Vietnamese Catholics established on 11 March 1955 in different circumstance.

Indeed the Liaison Committee of Catholics was set up soon after the liberation of the North, while a forced evacuation was taking as many as 5 bishops, 700 priests (two-thirds of the total) and about 700,000 believers (nearly half of the total) to the South, according to the *Informations catholiques internationales* No. 158 of 15 December 1961. Those of the faithful who chose to stay in the North lived in anxiety and under the guidance of priests the majority of whom were either openly or secretly hostile to the new administration. Many parishes were deserted and the system of seminaries had been wrecked.

As soon as the Liaison Committee was established thanks to the active endeavour of a number of Northern priests who did not leave for the South like the Reverends Vu Xuan Ky, Nguyen The Vinh, and a number of Southern priests regrouped to the North under the 1954 Geneva Agreements like the Reverends Ho Thanh Bien, Vo Thanh Trinh, Tran Quang Nghiem, it was immediately condemned by the Church in the North. On the very day following its constitution, under the influence of Vicar Apostolic Dooley, an Irish-born American notorious for his anti-communism, a decision by representatives of such important dioceses as Hanoi, Phat Diem, Bui Chu... bluntly stated that "this is a movement wholly alien to the clergy, who do not recognize it". Given this attitude of the bishops, the faithful were naturally wary of the Committee at least at the outset.

This year the Solidarity Committee of Patriotic Vietnamese Catholics was set up in entirely different circumstances. The constituent convention was attended by many bishops as guests. Archbishops and other bishops sent letters and messages of greeting. Many believers throughout the country sent letters and gifts. The participants were received by Cardinal Trinh Van Can before the opening of the convention and attended a mass at Ham Long church together with large numbers of Hanoi Catholics.

Despite the participation of a number of Southern priests regrouped to the North, the Liaison Committee had only been able to operate in the North because of the partition of the country following the 1954 Geneva Agreements. But now, the Solidarity Committee truly represents patriotic Catholics throughout the country. In August, a preparatory meeting was held in Ho Chi Minh City: although nominally an enlarged session of the Liaison Committee, it was regarded by many as a preparatory step to the unification of the Vietnamese Catholic church.

In fact, the Solidarity Committee includes the most representative Catholics throughout the country. Its President is Father Nguyen The Vinh, formerly President of the Liaison Committee. Other important personalities are Fathers Vo Thanh Trinh from the South, Nguyen Thai Ba from the North, Secretary-General of the Committee, and many Southern priests formerly belonging to the Third Force: Fathers Huynh Cong Minh, Vuong Dinh Bich, Truong Ba Can (from the former Young Catholic Workers' Movement), Phan Khac Tu, a former worker-priest who used to sweep the streets of enemy-occupied Saigon, symbolically considering the Thieu regime as garbage.

### Some Data on Vietnamese Catholicism

Catholicism was introduced into Vietnam more than 300 years ago by Western missionaries, who indeed opened the way to French gun-boats and expeditionary troops. For 300 years it was an alien body which opposed the interests of the nation.

At present, there are over 3.5 million Catholics in Vietnam: 1.2 million in the North, and the remainder, South of the 17th parallel. They are most numerous in the provinces of Ha Nam Ninh (450,000) and Nghe Tinh (350,000) in the North; Ho Chi Minh City (350,000) and Dong Nai (450,000) in the South. Over the past 28 years the number of Catholics may have gone up by more than half a million, mostly through birth. It should be said that family planning is more difficult to enforce in Catholic rural areas than anywhere else.

As regards its organization the Vietnamese Church is divided into 3 archdioceses:

— Hanoi archdiocese includes 10 dioceses, the biggest being Hanoi, Bui Chu, Phat Diem, Bac Ninh, Vinh...

— Hue archdiocese comprises 5 dioceses: Hue, Quy Nhon, Kontum...

— Saigon archdiocese is composed of 10 dioceses: Saigon, Xuan Loc, Lam Dong, Vinh Long, Can Tho...

Each diocese has from 1 to 3 bishops (or 1 archbishop as in Hanoi, Hue, Saigon). There are 43 archbishops and bishops, about 2,000 priests and nearly 12,000 monks and nuns.

In 1976, a Vietnamese dignitary, Archbishop Trinh Nhu Khue of Hanoi, was ordained Cardinal by the Vatican with the agreement of the Vietnamese Government. He was the first Vietnamese to be elevated to that dignity and to become one of the 140 or so Roman Catholic cardinals. When Cardinal Trinh Nhu Khue died (1978), Archbishop Trinh Van Can was made a cardinal by the Vatican.

To form new priests the Vietnamese Church has a system of 6 seminaries: 2 in each archdiocese. At the Government's suggestion the Vietnamese Church has ruled that seminary students will be recruited from among graduates of general-education schools.

In the Socialist Republic of Vietnam where an agrarian revolution has taken place, the Catholic Church and dignitaries cannot collect land rent as under the colonialist rule, nor profits from capitalist enterprises. The activities of the Church as well as the maintenance of its dignitaries rely partly on the believers' contributions on the occasion of such ceremonies as baptism, first communion, confirmation, matrimony, extreme unction... and particularly on the Vatican's aid to the "poor" churches in the world.

### Changes in the North

Following the reunification of the country, the Vietnamese Church

was reunified. The 43 bishops (including the Cardinal and the Archbishops) now form the Vietnam Episcopal Council. Likewise, there has emerged an organization grouping the patriotic Catholics with the agreement and sympathy of the reunified Church: the Solidarity Committee.

What has brought about this good result?

The question was put to Father Huynh Cong Minh when together with three Northern and Southern priests he held a press conference in Hanoi on 11 November 1983. The objective cause is the new conjuncture born of the regaining of national independence, he said, and the subjective one lies in the Vietnamese Church itself. This analysis is fundamentally correct.

The Vietnamese Catholics are part and parcel of the Vietnamese community. Like other Vietnamese, they felt suffering and shame under the French and US imperialists' domination. All the more so as they realized that their religion was being misused by these foreign rulers to pit Vietnamese against Vietnamese. When they called on Prime Minister Pham Van Dong to pay their respects, the Prime Minister told them: "At present, to love our country is to love socialism, to struggle side by side with the entire people for the socialist revolution. This is a very important and very practical point which all Vietnamese, Catholics and non-Catholics, must grasp and translate into action." (Nhan Dan daily, 12 November 1983). What Prime Minister Pham Van Dong said is something the Northern Catholics have understood through their own personal experience ever since 1954 when half of the country embarked on the socialist path. They have seen that their own life and that of the entire people has improved step by step: more and more bumper crops, irrigation works, brick houses, schools, hospitals, health stations, factories, construction-sites... Scien-

tific and technological advances have been applied by Catholics in Hai Hau, Bui Chu, Phat Diem... Hai Hau, one of the districts in the North with many believers, has become a district with the highest rice-yield: 7 tonnes of paddy per hectare. That has been brought about by socialism. The Decree of 14 June 1955 and the articles of the Constitution on freedom of belief have been thoroughly enforced. Meanwhile, US bombs and shells wrought havoc on such famous churches as Xa Doai (November 1968), Phat Diem (July 1972)... which were later on restored with the help of our socialist State. Thus, gradually the Catholics have embarked on the socialist road where they have been advancing shoulder to shoulder with the entire people. The great majority of believers have joined agricultural co-operatives. During the war of resistance against US aggression 60,000 Catholic youths enlisted in the army — the proportion of families having one or more sons in the army rising to 70% in some places. Not a few Catholics have been elevated to the title of Army hero.

It was the answer of the believers to the call of the Communist Party to defend the homeland and build socialism which made the clergy change their political behaviour. They understood that they had to swim with the tide and that to oppose the regime meant to oppose their own flock. Then they complied with their followers' aspirations to renovate religious life, do away with superstitious, complicated, time-absorbing and production-hindering practices, and simplify rites and processions. At last, the priests began taking part in social and political activities. Now most of them are members of People's Councils and Fatherland Front Committees at various levels in the Northern Catholic areas.

### ...And in the South

In the South, the Church formerly sided in the main with the imperialist aggressors and the Diem and Thieu cliques, using religion to serve the United States and distributing crumbs of US handouts to a number of Catholic dignitaries and believers.

However, during the war of resistance against US aggression, there were many Catholic people and a number of priests who opposed the puppet regime in various ways. And starting from 30 April 1975, patriotic-minded priests have actively worked to build the new power and the new society.

But what was most interesting and gratifying was that the behaviour of the Church in the South in 1975 was quite different from what it had been in the North in 1954.

In 1975, there was no question of Catholics leaving en masse their native places — this time it would mean leaving their homeland. The Church enjoined its clergy and flock to remain in Vietnam. Moreover, it adopted a policy of "adapting" itself to the revolutionary administration. Archbishop Nguyen Van Binh of Saigon and Archbishop Nguyen Kim Dien of Hue met Prime Minister Pham Van Dong in Hanoi and promised him to call on the Catholics in the newly-liberated areas to study and support the policy of socialist construction. In her visit to Ho Chi Minh City (1978), French nun Françoise Vandermeersch was able to witness Archbishop Nguyen Van Binh leading the Southern clergy into a new-type "pastoral retreat": Instead of retiring into a monastery or seminary to meditate, they went to do manual work, pray, and study at a State farm in Cu Chi, 60 km from the City. (See: "The Vietnamese Catholic Church" in *Vietnam Courier* of January 1979).

Moreover, the Southern Church has engaged in other concrete actions showing its "adaptation" to the new regime. As early as 7 October 1975 the Archbishop of Saigon handed over to the State 200 private Catholic schools, following which many dioceses also handed over their schools, hospitals and other buildings not serving their religious activities to the administration for it to use in the people's interests.

On the other hand, the counter-revolutionary activities of a few wicked priests have been condemned by the Church. Thus, after priest Nguyen Quang Minh was caught red-handed in Vincent church (Ho Chi Minh City) with a radio receiver-transmitter and equipment for printing forged banknotes, Archbishop Nguyen Van Binh stated: "I condemn these counter-revolutionary and illegal activities which go against our Lord's commandments." (*Nhan Dan* daily)

Of course, we cannot expect equal support from all Catholic priests: some sincerely praise and actively implement the Party's and State's economic and cultural policies while keeping intact their faith; others show compliance with some reservation; others still are not pleased with the new administration for some reason or other, but do not engage in organized opposition; a dignitary, for instance, refused to attend the constituent convention of the Solidarity Committee of Patriotic Catholics...

In any event, the Vietnam Episcopal Council meeting in May 1980 issued a common letter which reads among other things: (The Church) "deeply attached to the destiny of the homeland will join the nation in serving the people's welfare." Let us take it as the open and official attitude of the Vietnamese Church in the new conjuncture.

Why was the behaviour of the Southern Church in 1975 so diffe-

rent from that of the Northern Church in 1954? A very important factor was certainly the feeling of the Southern Catholics. In the days under the US-puppet rule, they witnessed the destruction of their native places by US bombs and shells, the defilement of their rites and the rottenness of the US-rigged administration. Being Vietnamese they could not help feeling proud of their nation's victory. And they were not unaware of the socialist achievements enjoyed by their fellow-believers in the North.

Among the causes put forward by Father Huynh Cong Minh at his press conference of 11 November 1983, there is the new stand of the Roman Catholic Church. While in the past the Church openly and directly opposed socialism, stressing the contradiction between atheism and theism, now since the Second Vatican Council it advocates participation by its believers in temporal activities in the socialist countries instead of opposition by Catholicism to socialism.

We should add that it is easy for the Vietnamese Catholics to comply with the new stand of the Church, because from their own experience they know that the contradiction between atheism and theism is not an antagonistic one, and that the imperialists seek to exacerbate it in order to hide the contradiction between them and the oppressed nations and that between the exploiter and exploited classes.

Father Huynh Cong Minh added that he did not want to go into the reasons which had moved the Roman Catholic Church to adopt such a stand at the Second Vatican Council, and so do we in this article.

### The Vietnamese Catholics and the Vatican

When the idea of founding the Solidarity Committee of Patriotic

Catholics was broached in 1983 it met with reservation from some quarters.

Some people feared that priests, monks and believers would band together to "get involved in politics" — which was banned by a circular of the Congregation for the Clergy.

But what does "to get involved in politics" mean? Most of the dignitaries in the Northern Church in the past and throughout Vietnam at present assert that taking part in national construction to make the country prosperous and the people happy is the duty of a citizen, regardless of his creed. For them to "engage in politics" is to scramble for power as groups and parties do in capitalist societies. This is not the case in Vietnam. So they just went ahead organizing the Committee to help the Catholics fulfil their citizens' duties.

Other people feared that an organization of Catholics would be a step toward setting up a Church different from the present one, a Church which would break away from the Vatican as the Chinese Church did, to become a completely separate Church, which advocates "self-appointment, self-recruitment and self-worship". But the 28-year activities of the Liaison Committee, the predecessor of the Solidarity Committee, show that this fear is groundless. In 1955, when the Liaison Committee was founded, its aim was not to compete with the Church, for it did not deal with doctrine. Once the Catholics had chosen the right path with the help of the Committee and become attached to the revolution, this made the Church cooperate with the revolution.

On the other hand, this cooperation did not in the least interfere with the ties between the Church and the Vatican — the entire Vietnamese clergy continued to regard the Vatican as the lead-

ing centre of Catholicism in the world... The Vietnamese State has never opposed and has always recognized the correct ties between the Vietnamese Church and the Vatican.

A clear proof of this is the help it gave to Cardinals Trinh Nhu Khue and Trinh Van Can to go to Rome for their ordainment. One had not to wait until 1980, after the country was reunified, for a delegation of Vietnamese bishops to pay a visit *ad limina* to Rome and pay homage to Saint Peter's and Saint Paul's relics. Even before the liberation of the South, Northern bishops did go to Rome to attend synods. Relations between the Vatican and the Vietnamese Church are continuous and normal. This is a gratifying fact in the eyes of the members of the Solidarity Committee of Patriotic Catholics.

However, these priests clearly understand that this does not mean submitting to the direction of the Vatican in political matters.

At the above-mentioned press conference of 11 November 1983 Father Huynh Cong Minh was asked why the constituent convention of the Solidarity Committee adopted a different stand from the Vatican's by condemning the US imperialists' collusion with the Chinese expansionists, arms drive, sabotage of peace, pressure upon other countries and interference in their internal affairs, as in Poland and El Salvador, fierce hostility to Cuba and Nicaragua, brazen aggression of Grenada..., and by fully supporting the peace initiatives of the Soviet Union, particularly the 28 September 1983 Statement of Soviet President V. Andropov. The stand of the Solidarity Committee explained by Father Huynh Cong Minh is that peace is the most eager aspiration of all nations, the prerequisite for

each nation to develop in peace and in solidarity with other nations and therefore the defence of peace is the sacred duty of everybody, the Catholics in particular, because the Christian faith is the religion of love, the religion of peace. For the sake of peace, we must protest against the Reagan Administration. This is also the stand of the Episcopal Council of the United States. In this matter, the Vatican cannot order us to take this or that stand. We support the Soviet Union because we understand that it truly defends world peace as well as the independence and national construction of Vietnam — which is at utter variance with the stand taken by the United States.

### A Great Experience

The leaders of the Solidarity Committee of Patriotic Vietnamese Catholics have spoken of the influence of the Second Vatican Council upon the Vietnamese Church in the relationship between the Church and socialism.

But, as Father Nguyen Thai Ba, Secretary-General of the Solidarity Committee, remarked at the above-mentioned press conference, the Church in North Vietnam and especially the Catholics grouped around the Liaison Committee did not have to wait until the convening of the Second Vatican Council in order to work out the motto of living in the spirit of the Gospel in the bosom of the nation." Through their own practical activities the priests and Catholics in the North had found as early as the 1950's what the Second Vatican Council only did later on.

It is a precious experience contributed by the Vietnamese

Catholics to Catholicism in the world. Many Catholic delegations have come to Vietnam to study it.

It is our belief that owing to the activities of the Solidarity Committee throughout the country, Vietnam's experience will grow even richer and will particularly benefit Catholics in the Third World where a struggle is going on against the enslaving moves of the imperialists, colonialists, and neo-colonialists. To make the Catholics feel attached to the nation, to create a complete harmony between Catholics and non-Catholics is a long process. The crack caused by the imperialists in the Vietnamese community throughout the past 300 years by making the Catholics their tool is not easy to mend. Even now many Vietnamese Catholics still harbour a complex. As the leaders of the Solidarity Committee remarked, the Vietnamese Catholics are very sensitive to anything related to their religion, especially to the relationship between religion and nation. Therefore, as these leaders stressed, a careless word said by a Party or State leader, or a clumsy sentence in a newspaper article can easily hurt their feelings. Of course, the Solidarity Committee has set itself the task of dispelling these complexes and misgivings, as well as clearing all hindrances in the relations between Catholics and non-Catholics in the national community. But the Committee also calls for understanding on the part of non-Catholic people, in the first place responsible cadres in the Party and the Administration about the existence of this complex.

And this is also an experience to be summed up by us Vietnamese.

## CHRONOLOGY

### CHRONOLOGY FOR 16 NOVEMBER-15 DECEMBER 1983

Hanoi VIETNAM COURIER in English No 1, Jan 84 p 32

[Text]

November

16—18. Holding in Hanoi of the Fifth Congress of the Vietnam Federation of Trade Unions. 949 delegates attend the Congress. A new executive committee of 155 members is elected with Nguyen Duc Thuan as its chairman.

16. Ending of an official friendship visit to Sweden, begun on Nov. 14, by Vietnamese Deputy Foreign Minister Ha Van Lau.

19. Ending of a visit to Vietnam, begun on Nov. 15, by Polish Foreign Minister Stefan Olszowski.

19—23. Holding in Hanoi of a conference on the rational utilization of natural resources and the protection of the environment by the Ministry of Higher Education and Secondary Vocational Educational and the State Commission for Science and Technology.

21. Holding in Vinh Phu province of a symposium on the rational and effective utilization of 13.8 million hectares of barren hillslopes and wasteland by combining agriculture with forestry.

22—24. Holding in Hanoi of the Second Congress of the Association of Performing Artistes.

22. Australia decides to send emergency aid of 1,000 tonnes of rice to the areas in Vietnam struck by recent typhoons and floods.

25—27. Holding in Hanoi of the Third Congress of the Vietnam Architects' Association.

25. Promulgation of the regulations for officers in the People's Prosecutor's Offices. The regulations have been ratified by the Council of State.

28. Promulgation of a decree by the Council of State on the issue of public bonds and mobilizing the people to purchase bonds for national construction (payment to be effected in the national currency, in paddy, or in foreign currencies).

29. Chairman of the Council of Ministers Pham Van Dong makes a statement strongly supporting the Nov. 24 Statement of Yuri V. Andropov, General

Secretary of the CPSU Central Committee and President of the Presidium of the USSR Supreme Soviet.

Nov. 29 — Dec. 2. A seminar is held in Hanoi on "Vietnam and International Organizations".

Nov. 29 — Dec. 8. Holding in Hanoi of the Fifth Plenum of the Central Committee of the Communist Party of Vietnam to:

— examine and adopt the orientation and tasks of the socio-economic plans for 1984 and the targets to be achieved in 1985.

— examine and decide on policies and measures to restore order on the front of goods circulation and distribution.

## DECEMBER

2. Hanoi: Opening of a seminar on naso-pharyngeal cancer (NPC) by a joint Vietnamese-French Committee for NPC study.

5. Signing in Moscow of a protocol on goods exchange and payment for 1984 between Vietnam and the Soviet Union.

6. Hanoi: The Institute of Literature and the Literature Publishing House hold a seminar on President Ho Chi Minh's collection of poems entitled "Prison Diary" on the occasion of the 40th anniversary of the publication of the work.

7 — 12. Holding in Moscow of the 9th session of the Vietnam-Soviet intergovernmental committee on economic, scientific and technological cooperation.

8 — 10. Holding in Hanoi of the Fourth Congress of the Vietnam Journalists' Association. 170 delegates representing more than 8,000 journalists in the whole country attend the Congress.

9 — 12. Holding in Phnom Penh of the second meeting of the chairmen of the commissions for economic and cultural cooperation of the three Indochinese countries.

9. Signing in Hanoi of minutes on cooperation between the State banks of Vietnam and Kampuchea in 1984 — 1985.

12. Signing in Phnom Penh of an agreement on economic, cultural, scientific and technological cooperation and aid for 1984 between Vietnam and Kampuchea.

13. A delegation of the Norwegian Communist Party visits Vietnam.

— A conference on banking operations between Vietnam, Laos and Kampuchea is held in Vientiane.

## CHRONOLOGY

### CHRONOLOGY FOR 16 DECEMBER 1983-15 JANUARY 1984

Hanoi VIETNAM COURIER in English No 2, Feb 84 p 32

[Text]

#### DECEMBER 1983

17. A Foreign Ministry delegation of the Islamic Republic of Iran ends its visit to Vietnam, begun on 14 December.

— An economic delegation of the Lao People's Democratic Republic visits Vietnam and signs agreements on economic, cultural, scientific and technological cooperation for 1984 between the two countries.

20. Opening of the sixth session of the Seventh National Assembly in Hanoi. It reviews the implementation of the 1983 State plan and budget and takes decisions on the 1984 State plan and budget, and the targets to be achieved in the socio-economic field in 1985.

— A Norwegian Communist Party delegation headed by Hans Kloven, its Chairman, ends a friendship visit to Vietnam, begun on 13 November.

21. Signing of a protocol on goods exchanges and payment for 1984 between Vietnam and Kampuchea.

— A Vietnamese Government economic delegation ends its visit to Cuba.

23. The Secretariat of the CPV Central Committee issues a decision on the publication of the Complete Works of Marx and Engels in Vietnamese.

— Holding in Vientiane of a friendship meeting of representatives of the youth of the three capital cities of Vietnam, Laos and Kampuchea. The meeting is to last until December 28.

26. The SRV Council of Ministers takes a decision on amendments to the product-based contractual system applied to groups of farmers and individual farmers in agricultural cooperatives and production collectives.

27. The SRV National Assembly issues a statement calling on the world's people to struggle for peace, against the danger of nuclear war and war kindled by the United States in Central America.

— Ending of a friendship visit to Vietnam by a delegation of the Soviet State Committee on Labour and Social Problems, begun on 15 December.

30. Opening in Hanoi of the first Vietnamese Economic and Technological Fair-Exhibition.

## JANUARY 1984

5. The SRV Council of State promulgates the law on elections to people's councils at various levels.

6. A Vietnamese Communist Party delegation, headed by Dinh Nho Liem, member of the CPV Central Committee, attends the 7th Congress of the Communist Party of Germany (Federal Republic of Germany).

— On the occasion of the Lunar New Year Festival observed in the two countries, the SRV Foreign Ministry sends a note to its Chinese counterpart proposing that the two sides cease all armed and other hostile actions in the border areas in the period from 30 January to 9 February.

7. A Vietnamese Party and State delegation, headed by Truong-Chinh, President of the Council of State and Political Bureau member of the CPV Central Committee, leaves for Phnom Penh to attend the celebration of the fifth National Day of the People's Republic of Kampuchea.

10. The Indonesian Government sends 10,000 US dollars to help people living in areas struck by typhoons and floods in Vietnam.

12. Signing of an agreement on economic and trade cooperation between Sweden and Vietnam.

14. Opening in Hanoi of a seminar of Southeast Asian women: "Peace, Development and Happiness of Women and Children in Southeast Asia", sponsored by the Women's International Democratic Federation and the Vietnam Women's Union.

## CHRONOLOGY

### CHRONOLOGY FOR 16 JANUARY-15 FEBRUARY 1984

Hanoi VIETNAM COURIER in English No 3, Mar 84 p 32

[Text]

### JANUARY

16—20. A Government delegation of the People's Republic of Bulgaria, led by Grisha Filipov, member of the Political Bureau of the Bulgarian Communist Party Central Committee and Chairman of the Council of Ministers, pays an official visit to Vietnam.

17. Signing of a protocol on goods exchange and payment between Vietnam and Albania.

18. Signing of an agreement on expansion and promotion of long-term economic cooperation between Vietnam and Bulgaria.

18—25. A delegation of the Foreign Relations Committee of the House of Representatives of Thailand, headed by Mr Kriengsak Chomanan, its Chairman, pays a friendship visit to Vietnam.

19—26. A delegation of the Foreign Relations Commission of the Hungarian Socialist Workers' Party Central Committee, led by Geza Kotai, Deputy Head of the Commission, visits Vietnam.

24. Nine Chinese prisoners, captured while illegally intruding into Vietnam's territory, are returned to China.

25. Opening of the lower deck of the Thang Long Bridge to motor traffic (light vehicles).

— Holding in Hanoi of a grand meeting to celebrate the National Day of the Republic of India.

26. The Vietnam Association of Cultural and Art Workers holds a cordial get-together with representatives of foreign embassies in Hanoi on the occasion of Tet (Lunar New Year Festival).

— Signing of minutes on economic and scientific cooperation between the Vietnamese and Kampuchean aquatic-product departments.

27. A ceremony is held in Hanoi to receive an emergency aid worth 5 million rupees donated by the Indian Government to people living in storm- and flood-stricken areas of Vietnam.

— Signing of a protocol on goods exchange and payment for 1984 between Vietnam and Cuba.

28 — 29. Holding in Vientiane of the 8th Conference of Foreign Ministers of Vietnam, Laos, and Kampuchea. A joint communiqué is published.

## FEBRUARY

5 — 6. Holding in Ho Chi Minh City of the First Conference of officials (commission chairman or minister) in charge of planning of Vietnam, Laos and Kampuchea. A joint communiqué is published.

— A delegation of the External Relations Commission of the Communist Party of Vietnam Central Committee, led by Vu Quang, its Chairman, visits the People's Republic of Bulgaria and the German Democratic Republic.

9. A Vietnamese theatrical troupe, led by Tran Bang, Head of the Performing Arts Department, leaves Vietnam for a tour in France and other West European countries.

— A delegation of the Health Ministry of the People's Republic of Kampuchea, led by Minister Yit Kim Seng, pays a visit to Vietnam. A plan for medical cooperation in 1984 between two countries is signed.

11. The Central Committee of the Communist Party of Vietnam, the National Assembly, the Council of State and the Council of Ministers of the Socialist Republic of Vietnam send a message of condolences to the Central Committee of the Communist Party of the Soviet Union, the Presidium of the Supreme Soviet and the Council of Ministers of the USSR on the death of Yuri V. Andropov, General Secretary of the CPSU Central Committee and President of the Presidium of the USSR Supreme Soviet.

12. A delegation of the Soviet Ministry for Foreign Affairs, led by Vice-Minister M.S. Kapitsa, ends its visit to Vietnam, begun on 9 February 1984.

13. General L. B. Moerdani, Commander-in-Chief of the Armed Forces of the Republic of Indonesia, arrives in Hanoi for an official visit to Vietnam.

— Le Duan, General Secretary of the Central Committee of the Communist Party of Vietnam, sends a message of congratulation to Konstantin U. Chernenko on his election as General Secretary of the Central Committee of the Communist Party of the Soviet Union.

15 — 16. Holding in Ho Chi Minh City of the Second Congress of the Vietnam Fatherland Front Central Committee to review the activities of the front in 1982 and work out the orientation and tasks for its activities in 1984.

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END